Alberta Legislature

Annual Report of the Auditor General 1993 - 94

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Alberta Legislature

Office of the Auditor General

Mr. R. Hierath, MLA
Chairman
Standing Committee on
Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1994, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

CA
Acting Auditor General

Edmonton, Alberta
October 14, 1994

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Report For The Year Ended March 31, 1994

This report is issued pursuant to section 19 of the Auditor General Act. It is the sixteenth such report to the Legislative Assembly issued by the Auditor General of Alberta.

The report is for the year ended March 31, 1994. Some of the observations and recommendations it contains resulted from audit work carried out since that date.

Auditor General Act

The Auditor General Act requires that I perform financial audits to provide assurance that financial statements are fairly presented. In addition to adding credibility to financial statements, the Auditor General Act requires me to identify systems that could be improved. This report contains recommendations which I believe will help the government improve the financial administration of the Province.

Scope of work

The scope and extent of audit work completed for 1993-94 and recommended improvements for the specific financial and management control systems examined by my Office are described in section 2 of this report.

For every financial statement audited, I have issued an Auditor's Report. Section 3 contains information on those auditor's reports that contained reservations.

For those transactions and activities examined in financial statement audits, apart from the instances of non-compliance described in this report, I am satisfied that they complied in all significant respects with relevant legislative authorities. The instances of non-compliance reported herein should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

Improving The Financial Administration Of The Province

Introduction

The 1992-93 annual report was released on January 12, 1994—just nine months ago. In that report, the then Auditor General discussed the government's progress in providing information on what was intended and achieved as a result of spending public resources. The report said that measuring and reporting on the effectiveness of Provincial programs was in its infancy. The critical first step in measuring and reporting on the effectiveness of programs was to know the cost of each service provided. Once the cost of program outputs was known, the government's financial systems could be further improved to more comprehensively assess program performance.

There has been progress since the beginning of the year. Collectively, Members of the Legislative Assembly continue to demand improvements in the effectiveness of public spending. The government has become more specific when talking about its goal of being open and accountable. The overview to the consolidated financial statements released in June 1994 acknowledges the need to know the cost of outputs.

As an accountant, I know that measuring the cost and effect of services invariably leads to reduced cost and improved service. Currently, there are large areas of government activity where the cost and effect of services is not usefully measured. Correcting this deficiency has the potential to produce significant savings.

I am convinced that measuring performance is critical to improving performance. However, the last thing my Office wants to encourage is an army of accountants and evaluators measuring everything in sight and reporting in mind-numbing detail. MLAs, ministers and managers need performance measures which are easily understood and which lead to wise decisions. Simplicity, clarity and candour are the essence of good accountability. These attributes separate systems that work from those that complicate and clog.

To continue the momentum to improve the financial administration of the Province, my staff and I will:

- explain and promote government accountability,
- encourage Provincial departments and agencies to measure the cost and effect of their outputs,
- encourage the reporting of performance information in financial reports, and
- apply the concepts of accountability to our own operations.

Accountability

During the last 18 months we have seen profound changes in Alberta's public sector. Significant reductions in expenditure have accompanied significant changes in governance. The health sector has been the first to see massive changes with the establishment of regional health authorities.

Decentralization of authority is a prominent feature of the changes taking place. The government is making high-level funding decisions, and empowering others to decide how the funding should be used. The delegation of authority carries with it a responsibility to be accountable.

Accountability can be defined as an obligation to answer for the execution of one's assigned responsibilities. Accountability involves explaining what was achieved with the resources provided. It involves comparing actual with planned results. Measuring the cost and effect of government operations is the key to reducing costs and increasing effectiveness.

My staff and I are accountants. Our profession was developed to help people measure and compare results. We believe it our responsibility to encourage accountability, to add credibility to the government's accountability reports and to improve the financial administration of the Province.

Financial reporting

The two main accountability reports currently produced by government entities are financial statements and annual reports. Financial statements are audited, and annual reports are not. Essentially, this parallels the practice in the private sector.

Fundamentally, the private sector exists to make profits. The net profit or loss in private sector financial statements is, therefore, a significant measure of performance. In the public sector, the annual surplus or deficit is important, but it provides little help in assessing the performance of government's programs and services. What is needed in the public sector is the equivalent of the private sector's net profit or loss. However, there is no single measure that equates to the private sector's "bottom line". The best equivalent is performance information which measures the cost of an organization's outputs and the effect of those outputs on desired outcomes. For example, useful performance information for a publicly owned college might involve reporting the cost and graduate employment success of each program offered. Performance information should be included in general purpose financial reports which consist of annual reports and financial statements. In this way, MLAs and ministers can assess the cost and effect of an organization's outputs.

For any government program, there should be a few key performance measures which will truly influence decisions. They are probably most easily identified when a program is started, because that's the time when people focus on what needs to be achieved. A key performance measure commands the attention of a minister because it is clearly relevant and easily understood by the general public. Where necessary, performance information should be audited. When audited, the reader will know that the information is relevant, reliable and fairly presented. In the case of our Office, a key performance measure is the comparison of our costs with those of private sector auditing firms. We will include this as supplementary performance information in our audited financial statements.

The idea of including performance information in public sector financial reports is new. The accounting professions in Canada and other countries are wrestling with the issues involved. We recognize that a period of experimentation is necessary before appropriate standards can be developed by the accounting profession. We also recognize that government initiatives to publicly disclose this information in financial reports will precede the standard setting process of the accounting profession.

Financial administration systems

In order to report on performance, it has to be measured. To measure performance, systems are needed.

As discussed, costs should be associated with outputs and outcomes. Traditionally, public sector costs have only been associated with inputs such as salaries, building rentals, and capital asset purchases. What is needed is to associate costs with outputs delivered and their effect.

The Department of Health funds activities that are designed to improve health. The primary desired outcome, therefore, is an increase in the sickness-free life of the average Albertan. Hospitals pursue this outcome by treating sick people. Hospitals produce treatments. The cost and effect of these treatments can be measured. Measuring cost and effect will promote productive health expenditures. For example, how effective are the following types of health expenditures in terms of increasing sickness-free days:

- expenditures to discourage unhealthy activities such as smoking,
- expenditures to encourage healthy activities such as exercise and improved diet, and
- expenditures to treat illnesses such as heart disease?

MLAs require answers to questions of this type if they are to spend taxpayers' money wisely. Assessing and reporting on cost and effectiveness applies to education and social services as much as it does to healthcare. The challenge is to identify outputs and measure and report their cost and effect in simple pragmatic terms. The reward is reduced cost and increased effectiveness.

However, time is needed for organizations to define their outputs, to decide how to cost them, and to build the systems needed to generate the necessary information. The process of defining outputs and costing and measuring their effect it challenging. It is unlikely that all the right answers will be developed at the first attempt. It is important for this process to begin quickly so that meaningful cost information can be produced as soon as possible.

A priority for the Office during the next several years will be to monitor and encourage the development of management systems that deal adequately with budgeting, managing, and reporting outputs. At the same time, we will encourage the development of systems which can economically measure the effect of outputs on outcomes.

The only way an organization can influence an outcome is through its outputs; however, the effect of one output versus another output is often difficult to measure. Further, outcomes are often influenced by factors outside the organization's control. For example, the rate of unemployment is influenced by a number of government funded outputs, but is mainly influenced by the private sector and economic events outside Alberta. In the short-term, we will expect greater precision in performance data dealing with outputs rather than with outcomes.

Rewarding performance

I believe the quickest way to obtain better information on program performance is if MLAs demand it, and make it clear that improved results will be rewarded.

The government has introduced Productivity Plus—a plan to give lump sum cash awards to managers who contribute significantly to productivity gains or the government's business plans. A percentage of the money saved would be used to fund the plan.

Departments must demonstrate their success to a review committee in the following areas to qualify for incentive funds:

- Improved productivity through efficiencies (cost savings, higher revenues); or through effectiveness (streamlined or improved long and short-term business practices and improved client satisfaction).

- Success in giving same or better quality of service while implementing productivity and business plans.

- Success in handling affected employees while implementing productivity and business plans.

- Contributions towards meeting the government's fiscal and business plans.

Whereas I can see that Productivity Plus will be beneficial, I am concerned that the Plan will perpetuate central control over employees' salaries. On the one hand, the government is decentralizing by empowering managers in exchange for accountability. On the other hand, and in contradiction, the government continues to directly manage each government employee's salary.

It seems to me that a primary purpose of publicly reporting information on salaries is to ensure that salary levels are reasonable in relation to performance. Accountability ensures that individual salaries do not get out of hand. Overall control of salaries is exercised through the approval of an organization's budget.

If through increased productivity and dealing with poor performers, savings in salary cost can be achieved, I believe some of the savings should be available to those who produced the savings. Managers should be able to use some of the money saved through increased efficiency to reward those who have contributed to that efficiency. In this way, people are encouraged to produce savings.

In my experience in both the private and public sector, unless you reward performance, your best people move on. The biggest contribution to the economy, efficiency and effectiveness of your operations is made by your best people.

I am not in a position to make a formal recommendation to government as controlling individual salaries is a matter of public policy. My purpose in commenting is to encourage debate on managing performance and rewards.

Guidance For The Reader

Section 2

Section 2 of the report describes the work of my Office for 1993-94 respecting audits of the various departments and agencies of the government. It contains the significant audit observations and recommendations that were reported to management as a result of that work. When determining significance, I consider the nature and

materiality of the matter relative to the individual entity and the government as a whole.

The report has 89 recommendations. These recommendations are provided for the benefit of ministers, Public Accounts Committee members, other MLAs and the public. **The 32 recommendations that I consider particularly important and therefore warrant a formal government response are numbered and shown on a shaded background.**

Section 3

Section 3 of the report describes the reporting process, contains a summary of the audit report reservations issued for 1993-94, discusses the audit of the Public Accounts and includes my report under section 18 of the Auditor General Act.

Section 4

Section 4 discusses my legislative mandate and the mission of the Audit Office. It includes an explanation of accounting principles, auditing standards and the Office's audit approach. The organization of the Audit Office is also described.

Acknowledgements

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments, agencies, and other organizations audited.

I also want to congratulate the staff of the Audit Office. The Office completed the audit of the Province's consolidated financial statements some two months earlier than last year and this Annual Report is being released three months earlier. This was achieved by 135 people; 20 fewer than the previous year. The savings resulted from the efficiencies required by tighter deadlines—and a lot of hard work.

I am confident that Members of the Legislative Assembly will find our recommendations worthwhile.

A.J.M. Dinzyati CA
Acting Auditor General

Edmonton, Alberta
October 5, 1994

Accountability

Introduction

Recently, the government has concentrated on improving public accountability. Initiatives such as three-year business plans, consolidated budgeting, and improvements in the quality and timeliness of the consolidated financial statements all contribute to improved public accountability. Current discussions on the importance of measuring and reporting on performance are designed to further the accountability goal. Much has been done.

In the public sector, the words "Accountable", "Cost-effective", "Value for Money", and "Focus on Results", are all saying the same thing. Albertans and their legislators want to assess the performance of government. What is needed is an accountability framework which sets out responsibilities and expected results, and requires those responsible to report back on whether the expected results were achieved and at what cost.

A goal of the Office of the Auditor General of Alberta is to actively promote clarity in reporting within an accountability framework that links plans to results and their costs. To this end, and in response to the government's request for assistance in improving accountability, we have drafted guidelines for an accountability framework.

I believe our proposed guidelines, which are set out below, are now ready for a critical review. Through debate, improvements will be identified. The test is whether the guidelines will facilitate the establishment of effective accountability.

The recommendations that follow the guidelines are the most significant issues to be addressed in developing a framework.

Proposed guidelines

The focus of our guidelines is on outputs (goods and services provided). It is through outputs that costs and effects are linked. The government sets its goals. Departments and agencies deliver outputs designed to achieve these goals. To assess value for money, costs must be related to results. Outputs are the vehicle for doing this.

Accountability starts with planning. Plans are prepared which state what is to be accomplished (goals) and how (through outputs) and at what cost. Line managers then focus on delivering the outputs, continually trying to improve the cost-effectiveness of the outputs. Then the cost and effects of outputs are measured and compared to the estimated costs and goals set in the plan. With this information Albertans can decide if they received value for money.

We propose the following guidelines as a basis for developing a practical accountability framework.

Guidelines

- ✓ Accountability is necessary when responsibility is assigned and authority is delegated.
- ✓ The basic characteristics of accountability information are understandability, relevance, reliability, and comparability. Also, the cost of providing accountability information should not exceed the expected benefit.
- ✓ All forms of accountability reporting should provide information on outputs.
- ✓ Expected results need to be clearly expressed and must be measurable.
- ✓ Accountability reports should link information on the costs of outputs with information on their effects.
- ✓ A ministry accountability report should include all the Provincial organizations accountable to the minister.
- ✓ Each organization and fund should prepare plans (including budgets) and performance reports.
- ✓ Plans should be prepared by those who have been assigned responsibility. The plans should state results to be achieved, actions to be taken and by whom, estimated costs and performance targets. Those who assign responsibility should agree to the plans.
- ✓ Performance reports (such as financial statements and annual reports) should compare actual to planned results.
- ✓ Key accountability reports, including plans, budgets, financial statements and annual reports, should be made public.
- ✓ Published performance information should be audited.
- ✓ Accountability processes within a Provincial organization should be consistent with, and support, accountability to the minister and the Legislative Assembly.
- ✓ The main elements of an effective accountability framework should be legislated.

Outputs as the link

Recommendation No. 1

It is recommended that plans, annual reports and financial statements provide information on outputs.

Accountability documents provided to the Legislative Assembly include three-year business plans, budgets, annual reports and financial statements. Plans and annual reports contain performance information, whereas budgets and financial statements contain cost information. It is not sufficient to speak exclusively of costs or exclusively of results. Information on costs and results must be brought together. Goods and services (referred to as outputs) are the common link between costs and results.

The costs of outputs can be determined. In the private sector, most successful businesses can tell you how much a particular product costs. Delivering outputs is what the government does to achieve its goals. As it must decide between alternative outputs through evaluation of performance, it needs to know the cost and the effect of an output.

Relating outputs to long-term results is difficult. Many factors outside the control of the government will influence the results achieved. However, outputs have a direct and immediate effect on recipients. These effects can be measured. The ultimate challenge is to determine the degree to which the immediate effects of outputs contribute to long-term results. But first, we must establish a sound base, and that base is the cost of outputs.

Performance information

Recommendation No. 2

It is recommended that financial reports include supplementary performance information.

Traditional financial statements and annual reports include information on the acquisition and use of resources. But to evaluate the government's cost-effectiveness, performance information is also needed. For any Provincial organization, there should be a few key performance measures which truly influence decisions. A key performance measure commands the attention of a minister because it is clearly relevant and can be understood by the general public. Such measures should be included in the financial statements or annual report. My preference is that in due course these performance measures be included in the financial statements.

The main advantages to including performance measures in financial reports are:

- The performance measures will be directly associated with costs; therefore the reader will be able to relate costs to effects.
- The performance measures will be audited where necessary. Therefore, the reader will know that they are presented fairly.
- The performance measures will take advantage of an existing reporting structure and system. No new and unproven reporting structure is needed.
- The requirement to publicly report performance information will ensure that information systems are modified to measure performance.
- Legislators and the public want to assess results and they want to be able to do this quickly. Putting performance measures along side the cost information will meet their needs.

Departmental financial statements

Recommendation No. 3

It is recommended that as soon as practical each department prepare a full set of financial statements that includes assets, liabilities, equity, revenues and expenditures.

All departments are charged with stewardship of assets as well as the management of liabilities, revenues and expenditures. In some cases, the assets or liabilities managed by a department are significant. For a department to account for its responsibilities, its financial statements should be complete.

One of the Treasury Department's strategies is "establishing full costing of all government services, including...cost of capital." In order to calculate the cost of capital, the capital structure of a department must be determined. This can be done by preparing a balance sheet.

Ministerial reports

Recommendation No. 4

It is recommended that as soon as practical, ministers table consolidated plans, budgets, financial statements and annual reports which include all entities for which they are responsible.

Currently, in most cases, tabled accountability reports are by entity. What is needed is consolidated ministry reports.

Ministers are individually accountable to the Legislative Assembly for meeting the responsibilities assigned to them. A minister may choose to meet these responsibilities through a number of different organizations, each providing separate performance reports. It is difficult to assess overall performance when information is fragmented. It is therefore necessary to bring performance information together to assess the cost-effectiveness of the ministry.

Ministerial reporting that consolidates information from a number of entities will provide a focused concise report. Its preparation will not be easy.

Accountability framework

Recommendation No. 5

It is recommended that the Treasury Department develop an Alberta Accountability Framework and communicate it to Provincial organizations.

It is to be expected that organizations in the Province will progress at different speeds in improving their accountability. The government has provided a vision of the accountability it seeks and management is responding. Since an accountability framework is under development, and examples of best practice are unavailable, management is experimenting. This is healthy because the creation of rules too early will dampen enthusiasm to find an Alberta solution.

As best practice emerges, efficiency demands that it be communicated to those who need assistance in the process of change. A good way to achieve a functioning accountability framework that is applied consistently would be to specifically assign responsibility for informing others of preferred practice. This responsibility should include the requirement to evaluate emerging practice, to document best practice and to communicate standards for an Alberta Accountability Framework. I believe the Treasury Department is well suited for this because it has a major role in assisting the Treasury Board carry out its responsibilities.

In time, it might be wise to legislate the main elements of a framework. The benefits of a legislated framework include:

- An enduring system with consistent formats and a common vocabulary which will assist users in understanding accountability information and will increase comparability across organizations.

- The disclosure of all the information required for complete accountability.

Annual reports

In his 1992-93 annual report (page 14), the Auditor General recommended that the government provide direction to departments and Provincial agencies to improve the content and timing of submission of annual reports to the Legislative Assembly.

The Provincial Treasurer has urged departments and Provincial agencies to table their reports in a more timely manner. In addition, he has indicated that as the three-year business planning process matures and the government gains more experience with performance measurement, annual reports should improve. His comments in the Overview to the 1993-94 consolidated financial statements about the need to combine information on financial results with an accounting of the outcomes, are another strong indication of the government's wish to improve accountability.

I am pleased with the steps taken to improve annual reporting and I will continue to use the resources of my Office to help improve accountability.

Lloydminster Bi-provincial Upgrader Project

In the 1992-93 annual report (page 15), it was recommended that Executive Council identify Alberta's current expectations from its investment in the Lloydminster Bi-provincial Upgrader.

A decision has now been made to dispose of Alberta's investment in the project.

Department of Executive Council
year ended March 31, 1994

In addition to the annual financial audit, the following work was completed:

- Development of proposed guidelines for an accountability framework.

- Preparation of the Statement of Loss to the Province from its Involvement with Gainers Inc. pursuant to a request from the Premier under section 17(2) of the Auditor General Act.

Gainers Inc.

On March 23, 1994, the Auditor General released a Statement of Loss to the Province from its Involvement with Gainers Inc. The estimate of the loss was $209 million. As indicated in a media

release, the estimate of the loss was different from the government's estimate because it included interest expense.

The decision to include the interest expense in the Auditor General's estimate was made as work progressed on the Statement of Loss. The Statement ought to have made it clear that the Auditor General's staff were involved in the Treasury Department's decision to exclude interest from the government's original calculation of the loss. The advice given by the Audit Office at that time was that the amount of the interest expense should be disclosed, which it was.

ENTITIES ADMINISTERED BY MEMBERS OF THE EXECUTIVE COUNCIL

Certain members of the Executive Council have been charged by the Lieutenant Governor in Council with the administration of the following Acts:

- Alberta Educational Communications Corporation Act
- Interprovincial Lottery Act
- Liquor Control Act
- Metis Settlements Accord Implementation Act
- Racing Commission Act
- Wild Rose Foundation Act
- Workers' Compensation Act

My observations on the entities which operate pursuant to these Acts are, therefore, included here under Executive Council.

Lotteries

year ended March 31, 1994

In addition to the annual financial audit, my staff completed an examination of the financial and management controls used to administer the Community Facility Enhancement Program II.

Lottery revenues

Recommendation No. 6

It is recommended that the government reconsider its rationale for being less accountable for lottery revenues than for other public funds.

It appears the government believes that the discretionary nature of lottery revenues is a sufficient reason to administer these funds in an exceptional manner. I believe that the result is diminished accountability for these revenues and for the expenditures made from them.

In his 1992-93 report (page 17), the Auditor General commented on the need for greater accountability for the expenditure of lottery revenues. His comments were directed at two separate and distinct categories of expenditure—those made from the Lottery Fund and those made from lottery revenues that are not deposited in the Lottery Fund. He expressed the belief that appropriations from the Lottery Fund should be expended under the direction of the appropriate government departments to encourage the delivery of needed programs at least cost. He also commented that public accountability for expenditures made directly from lottery revenues, which are not deposited in the Lottery Fund, should be improved.

Net lottery revenues for the year ended March 31, 1994, after payment of prize money and other shared costs, retailers' commissions, and fees and taxes to the Government of Canada, amounted to $359 million. Of this, $317 million in cash was transferred to the Lottery Fund. The remaining balance of $42 million represents payments made by Alberta Lotteries for administrative, operating and marketing expenses ($21 million) and for the purchase of capital assets ($21 million). Of the $317 million transferred to the Lottery Fund, $137 million was used to pay grants, $113 million was transferred to the General Revenue Fund, and the remaining cash of $67 million increased Fund equity.

In the past year, the government has made major improvements in accountability for its departments and agencies. It has requested each of them to prepare three-year business plans comprising specific objectives, actions, results and spending targets. The plans will help in the identification and elimination of waste and duplication in programs and will promote the measurement of results. However, three-year business plans were not prepared for lottery operations or for the Lottery Fund. As a result, expenditures made directly from lottery revenues and from the Lottery Fund were not subject to these improvements in accountability.

Although Lottery Fund estimates are now presented to the Legislature, estimates for expenditures made directly from lottery revenues are not presented. I believe that there is a need for the Legislature to review and vote on all expenditures made from public funds. Accountability begins with a budget. The budget forms an integral part of the process of setting priorities and expected results.

As previously mentioned, the Lottery Fund grant expenditures continue to overlap areas where responsibility for providing services has been conferred on other departments. The intended effect of these expenditures is not built into the results and outcomes expected from the other departments' related program areas.

In my view, the discretionary source of lottery revenues is not grounds for reduced accountability. The funds belong to the Province and the government should be accountable to the Legislative Assembly for its administration of them.

Community Facility Enhancement Program II

It is recommended that Lottery Fund management improve the system for approving applications for grants under the Community Facility Enhancement Program II.

The Community Facility Enhancement Program (CFEP I) was introduced in October 1988, as a three-year program to provide $100 million in grant funds on a cost-sharing basis for the repair, renovation, upgrading or expansion of community facilities in Alberta. A second such program, CFEP II, commenced January 1, 1993, and will provide $75 million in grant funds over three years. Project eligibility has been expanded under CFEP II to include facilities that enhance "community wellness" and the development of new community public-use facilities.

In his 1990-91 annual report, the Auditor General identified several concerns relating to the administration of CFEP I. He recommended that the systems used by the Lottery Fund to establish and administer grant programs be improved.

In the current year, my staff reviewed the system used to administer CFEP II and noted that improvement had been made to address some of the earlier concerns. However, the concern regarding not identifying program priorities has not been dealt with.

As part of the system to select projects for funding, the expected benefits should be quantified. This can be achieved by, for example, "weighting" the eligibility criteria and assigning a value to projects based on these weightings and on expected costs. Program staff could then recommend projects for funding based on their expected value to the Province. As a result, the risk of not selecting projects with the greatest value would be reduced.

A review of the project files indicated that the expected benefits accruing from the projects had not been quantified. My staff was thus unable to relate the reasons provided in the files for approval or rejection of the projects, to the value in terms of costs and benefits.

The Workers' Compensation Board
year ended December 31, 1993

Cost of living adjustments

It is recommended that The Workers' Compensation Board comply with legislation and a Board order by providing cost of living increases to all entitled injured workers.

At December 31, 1993, approximately 3,200 injured workers had not received cost of living increases to which they were entitled.

In 1990, the Legislative Assembly authorized a 10% increase in injured worker benefits. The Board of Directors approved a further increase effective January 1, 1992. Approximately $5 million of the cost of living increases had not been processed at December 31, 1993.

The Board was able to make computer systems changes to automatically adjust pension benefits. However, Board staff have to manually identify and adjust other types of benefit payments to process the increases.

The Board has indicated that system changes are planned to allow more prompt application of cost of living adjustments and expects to have all adjustments processed by the end of 1994.

Loans to employees

It is recommended that The Workers' Compensation Board stop making loans to employees, since it lacks the legislative authority to do so, and recover the amounts loaned to date.

The Workers' Compensation Act does not allow the Board to make loans to employees.

The Board provides interest-free loans for its employees to purchase computers for personal use. At December 31, 1993, the Board had 179 such loans outstanding amounting to about $350,000.

The Board also provides loans for employees to purchase vehicles when those employees need a vehicle for Board business. At December 31, 1993, the Board had 11 vehicle loans outstanding amounting to about $83,000.

Overpayments

It is recommended that The Workers' Compensation Board improve its procedures to prevent and properly record overpayments to claimants.

The Board continues to have difficulties with overpayments. The overpayments can arise from administrative errors in claims processing or incorrect reporting by employers and employees.

A new system implemented by the Board in 1992 to help prevent and detect overpayments is not working properly. Information contained in the system is not always adequate to detect duplicate claims. In addition, not all overpayments which are identified by the system are true overpayments. This latter problem makes it more difficult for Board staff to identify and follow up the true overpayments.

At December 31, 1993, the Board wrote off $12.4 million in recorded overpayments. It is in the process of identifying which of these are true overpaymemts and has indicated that the overpayment problem is a priority for resolution in 1994.

Other Matters Related To Executive Council

Telephone calls

My staff has completed a review of allegations reported to me that long-distance telephone calls were made from Legislature offices for political purposes during the December 1992 Progressive Conservative leadership campaign.

The review indicated that the number of long-distance telephone calls made from some Legislature offices increased in the period of the leadership campaign. The largest number of long-distance calls made from a Legislature office was 225 calls during the week ended December 5, 1992, compared to an average of 64 calls per week from that office for 1992-93. Toll charges were approximately $150 for that week for that office, compared to the average of $95 per week for 1992-93. Staff members were unable to provide an explanation for these fluctuations. As required, the toll charges were approved by an expenditure officer who certified that the charges were incurred in the course of conducting government business.

The findings of my review are that there was an increase in telephone calls at the time of the Progressive Conservative leadership campaign, that the financial impact of the toll charges was insignificant, and that the payment control procedures were followed.

I support the observation made by the Ethics Commissioner in his 1993-94 Annual Report where he advised Members of the Legislative Assembly that publicly funded offices should not be used for political purposes.

Code of conduct and ethics for public service employees

Recommendation No. 7

It is recommended that the Public Service Commissioner update the *Code of Conduct and Ethics for the Public Service of Alberta* to provide additional guidance to public service employees in potential conflict of interest situations.

The *Code of Conduct and Ethics for the Public Service of Alberta* was last updated in April 1983. Since that time, there have been significant changes in the economy, and in the way government does business.

Significant initiatives have been undertaken recently concerning conflict of interest issues. For example, the Conflict of Interest Act, proclaimed in force in 1993, requires disclosure of certain business and financial interests by Members of the Legislative Assembly. A 1993 Cabinet Directive to senior officials of the government outlines areas where conflict of interest situations could arise. The Directive also requires additional disclosure of information to the Ethics Commissioner.

I believe there is now a need to assess how the *Code of Conduct and Ethics for the Public Service of Alberta* can be made more responsive to the present and future needs of the public service.

Conflict of interest guidelines for public employees should provide guidance in situations where a conflict may arise between an employee's private interests and the employer's interests.

The following improvements to the *Code of Conduct and Ethics for the Public Service of Alberta* could be considered:

<u>Definition of related parties</u>

The Code has two sections in which related parties are defined. The section dealing with employees' business and financial interests defines related parties as spouses and children under the age of 18, while the section relating to employees who exercise regulatory, inspectional or discretionary control defines related parties as parents, parents-in-law, brothers and sisters, and grandparents. It is not clear why this distinction exists.

Consideration should be given to providing a broader definition of related parties as it relates to business transactions. Children over 18, brothers and sisters, mothers and fathers, business partners, and any other party who could be considered not at arm's length should be considered for inclusion in the definition of a related party.

Consideration should also be given to providing guidance for employees who are seeking employment with parties who conduct or expect to conduct business with their employer. This is particularly important in a downsizing environment where the best opportunities for employees may exist with businesses who are seeking to secure work being contracted out. Guidance provided should consider the employees' need to acquire suitable employment. The Code should not prohibit public employees from seeking prospective employment. However, certain abstention and/or disclosure requirements should be observed if employees' self-interest could influence decisions regarding any contract.

Guidance on specific transactions

Certain transactions, such as awarding contracts for the purchase of goods or services, recruitment of staff and consultants, and those which relate to regulatory matters are more likely to create a conflict of interest. Departments need to be encouraged to identify when such transactions can result in conflicts of interest and provide appropriate guidance to employees involved in such transactions.

Disclosure of information

Consideration should be given to requiring disclosure of related parties and business interests. At present, the disclosure requirements are at the discretion of the department head.

Other

The Code could be accompanied by examples to illustrate the application of the policies.

In addition, the Public Service Commissioner's Office could provide conflict of interest guidance to entities that are not covered by the government's personnel policies but who receive significant public funds such as regional health authorities, school boards and Provincial corporations.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1994:

The Alberta Educational Communications Corporation
Alberta Racing Commission
Metis Settlements Transition Commission
Metis Settlements Transition Fund
Personnel Administration Office Revolving Fund
The Wild Rose Foundation

and the **Alberta Liquor Control Board** for the year ended January 4, 1994

Department of Advanced Education and Career Development
year ended March 31, 1994

Annual financial audits, for the year ended June 30, 1994, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in the next annual report:

Alberta College of Art
Fairview College
Grant MacEwan Community College
Grant MacEwan Community College
- Community Enrichment Project
Grande Prairie Regional College
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Mount Royal College
Mount Royal College Foundation
Mount Royal College Day-Care Society
Northern Alberta Institute of Technology
Olds College
Red Deer College
Southern Alberta Institute of Technology

Guidance to reader

A majority of the recommendations in this section advance a basic principle that was first discussed at length in last year's report. That is, to evaluate and compare performance, sufficient information on the cost of the outputs funded must be available. To determine the cost of outputs, appropriate and consistent accounting practices must be followed, and all relevant costs should be included.

More effort is needed to change existing reporting from focusing on resources used, to focusing on performance in terms of outputs and effects. The appropriate autonomy of educational institutions to make service delivery decisions does not reduce, rather, it increases the need to be accountable for the efficient use of public funds.

In the case of this Department, a major program output is graduates. The other output of significance is the research activity carried out by the Universities. I believe that the Department will, initially, derive most benefit from knowing how much it costs to produce a graduate from an institution, and being able to compare this information to the cost of producing similar graduates from other institutions within, as well as outside, the Province. This knowledge will enable the Department to identify opportunities for further improvement.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the Department's methods for monitoring the performance of the Apprenticeship and Industry Training Program.

- An examination of the systems used by the Department to account for and report the revenues and costs for cost-recovery programs at the Alberta Vocational Colleges.

Apprenticeship and Industry Training Program - monitoring performance

It is recommended that the Department of Advanced Education and Career Development publish key performance indicators for the Apprenticeship and Industry Training Program to facilitate an assessment of results.

The objective of the Apprenticeship and Industry Training Program is to provide skilled people for the Alberta economy. Apprenticeship training is an industry-based system which combines practical on-the-job training with technical training provided mainly through publicly funded post-secondary education institutions. Alberta's apprenticeship program currently encompasses 51 occupations, 19 of which are designated as compulsory certification trades. The cost of the Program to the federal and provincial governments is approximately $80 million per year, of which the Province's share is approximately $60 million.

The Program accepts new apprentices with the expectation that they will progress to be certified journeymen. However, not all the apprentices remain in the Program. Thus certified journeymen, registered apprentices, and apprentices who do not complete the entire training program, will have differing impacts on Alberta's economy.

The Department does not assess and publicly report whether the Program is producing the desired effects economically and efficiently. To be able to do so, the Department should first define the Program's outputs and establish their cost. It should then link the cost of the outputs to their effects. This information should enable better counselling of new entrants to the programs, thereby reducing attrition rates and costs.

In reviewing reports available in the Department, my staff noted that Alberta produces 20 to 25% of Canada's journeymen. The unemployment rate in the construction industry, which includes many apprenticeship trades, has ranged from 14% to 27% over the last ten years. Further, of all the apprentices that registered in the electrician, automotive technician and plumbing trades in 1988,

32%, 39% and 30% respectively, did not remain in the Program. I believe such indicators, when published, can provide useful information to those who fund the Program to evaluate whether the Program is producing the desired results.

Previous recommendations

In his 1992-93 annual report (page 50), the Auditor General indicated that approximately $48 million of the Province's expenditure on the Program was spent on technical training of apprentices at post-secondary institutions. However, due to concerns about the reliability and consistency of available information on these costs, the Department did not use it to monitor or evaluate the programs offered at each institution.

It was also reported last year that approximately $15 million was spent to administer the Apprenticeship and Industry Training Program through various regional offices. However, the Department was unable to assess the relative efficiency of the regional offices, since the Department did not have the information necessary to compare the costs of operation of each of the offices.

I am pleased to report that the Department accepted the recommendation made last year, and is now budgeting and accumulating regional delivery costs of the Program. My staff observed that this change has improved the information available for monitoring costs.

Provincial contributions

Recommendation No. 8

It is recommended that the Department of Advanced Education and Career Development provide guidance to post-secondary educational institutions on the objective of the Province's capital funding in order to facilitate sector-wide performance measurement.

Currently, there is inconsistent understanding among the post-secondary educational institutions as to whether they or the Province are responsible for funding the replacement of capital assets. As a result, there is confusion in planning for the future replacement of capital assets, and the reporting of contributions received from the Province is inconsistent.

It is my understanding that the capital contributions provided by the Province were intended to subsidize the cost of educational programs over the life of the assets. Therefore, releasing capital contributions to revenue as the assets are consumed will offset the amortization expense. No deficit resulting from amortization is created under this accounting policy. However, not all educational institutions follow this policy and no other accounting policy for

capital contributions is consistently followed in the sector. As a result, the reported results for the sector are not comparable.

The not-for-profit sector currently lacks accounting standards for the treatment of capital contributions and the Department is reluctant to provide guidance which, on an interim basis, could permit consistency in reporting.

What is needed is a decision on whether the contributions for consumable capital assets were provided:

- as a payment in advance to fund the consumption of the assets acquired, in which case it is reasonable to suppose that the Department will continue in future to fund the consumption of assets. Future funding of consumption could either be provided through the continuation of payments in advance, or through operating grants to cover asset amortization, and interest on loans used to acquire the replacement capital assets; or

- as a capital contribution with the expectation that the assets acquired are expected to generate sufficient revenues for their replacement. In this case, it is not reasonable to assume that the Department intends to fund asset consumption.

My recommendation is intended to encourage the Department to provide direction so that institutions:

- can report capital contributions consistently; and

- can include the cost of consumption of capital assets when reporting their program costs. Complete cost information is required to improve the cost-effectiveness of programs.

Accounting principles for post-secondary educational institutions

In his 1992-93 annual report (page 48), the Auditor General recommended that the Department encourage all post-secondary institutions to accrue liabilities for vacation pay and other staff benefits in their annual financial statements. Despite being the only Provincial agencies not to recognize their vacation pay liability, eleven of the Province's thirteen public colleges and technical institutes decided to accept a qualified Auditor's Report, rather than accrue the vacation pay liability in financial statements for the year ended June 30, 1993.

The Department accepted this recommendation, and the eleven institutions have indicated their intention to accrue liabilities for vacation pay and other staff benefits in their financial statements for the year ended June 30, 1994. I have therefore not repeated the recommendation.

Costing of outputs

Over 75% of the Department's 1993-94 budget of $1.2 billion represented grants to higher and further educational institutions which are managed by appointed boards. The Department does not have sufficient information on the costs of the outputs funded by the grants and their effects, and thus is unable to assess and compare the performance of institutions.

In his 1992-93 annual report (page 45), the Auditor General recommended that the Department, in consultation with the post-secondary educational institutions, establish a common method of determining and reporting costs of outputs of the post-secondary educational institutions.

The Auditor General also suggested that the Department should encourage institutions to produce information which would facilitate performance comparisons, in order to identify improvements.

The Department accepted the recommendation, and indicated that it was working with the institutions to develop performance indicators or output measures.

My staff will examine the Department's progress in implementing these strategies during subsequent audit examinations.

Other entity

A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1994.

UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially owned universities and The Banff Centre operate under the authority of the Universities Act and The Banff Centre Act respectively. The financial statements of these Provincial agencies and their related entities are not included in the Province's consolidated financial statements, but are included in Volume 4 of the Public Accounts.

Guidance to reader

Athabasca University was the first university that we selected to assess the extent to which outputs are related to their cost and effect. The recommendation arising from the work done is of course directed to Athabasca University. However, it should not be assumed that a similar recommendation would not apply to other institutions where such work was not carried out. Other institutions may be able to benefit from examining their own practices to determine whether the recommendation I have made regarding outputs is relevant to their environment.

Athabasca University
year ended March 31, 1994

In addition to the annual financial audit, my staff completed:

- An examination of systems used by the University to plan, monitor, and report its activities and achievements.

- Financial audits of the following for the year ended March 31, 1994:

  Athabasca University Development Institute
  Athabasca University Foundation

Defining and costing outputs

Recommendation No. 9

It is recommended that Athabasca University define and cost its outputs.

The University has not defined its outputs and therefore does not cost them. Consequently, the University is unable to provide the information necessary to assess cost-effectiveness.

In 1992-93, the Province provided approximately $18 million in grants to the University, representing 78% of the University's revenues. The funding was not linked to specific performance expectations and, as such, it is unclear what outputs were expected from the funding. What is clear, though, is that the University

graduated 132 students at an annual operating cost of approximately $22 million in that year. Undoubtedly, graduates are an output of the University. But there are other outputs as well, which need to be defined. For example, helping students obtain the necessary course credits to graduate from other educational institutions is an output.

Defining outputs is a logical first step in identifying the University's contribution to Alberta's adult education sector. The intended outputs should be publicly reported to provide a context in which the University's success in the adult education field can be evaluated. The outputs should be measurable and fully costed.

Amortization of capital assets

It is recommended that Athabasca University amortize its capital assets.

The University does not amortize its capital assets. As a result, its financial results do not include the annual cost of assets consumed in the delivery of its programs.

The other Alberta universities and The Banff Centre began to amortize capital assets in their 1994 financial statements.

Development of new systems

It is recommended that Athabasca University improve the way it manages systems development activities.

The University's management of its accounting systems development activities could be improved. The University's long-term needs are not always clearly defined, and the systems development projects are not managed with sufficient rigour to ensure that defined objectives are met.

During 1993-94, the University introduced a new Miscellaneous Accounts Receivable system. The new system had a limited number of objectives. It was to provide reliable information on fees received from students for courses to be delivered in future financial periods, be less labour intensive in processing student registrations, be able to share data with other existing systems, and produce a clear transaction trail. The system, which took approximately two years to develop, and cost almost $150,000, met only one of the objectives; it produces a reliable listing of deferred revenues.

University management has also identified that the present financial reporting systems are not capable of meeting the evolving needs of the University. For example, the capital assets system is not capable of calculating amortization. It is critical that new systems development should carefully consider the University's long-term needs.

The Banff Centre for Continuing Education
year ended March 31, 1994

In addition to the annual financial audit my staff examined the systems used by the Centre to establish objectives, and to report to the Board of Governors and others.

The University of Alberta
year ended March 31, 1994

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1994:

Alberta Microelectronic Centre
Telecommunications Research Laboratories
The Laser Institute
University of Alberta 1991 Foundation

The University of Calgary
year ended March 31, 1994

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1994:

The Arctic Institute of North America
University of Calgary Foundation
University Technologies International Inc.

The University of Lethbridge
year ended March 31, 1994

In addition to the annual financial audit, my staff completed the financial audit of the following related organization for the year ended March 31, 1994:

University of Lethbridge Foundation

PUBLIC COLLEGES AND TECHNICAL INSTITUTES

The Provincially owned colleges and technical institutes operate under the authority of the Colleges Act and the Technical Institutes Act respectively. Their financial statements are not included in the Province's consolidated financial statements, but are included in Volume 4 of the Public Accounts.

Guidance to reader

As audit resources are limited, the Audit Office directs its efforts where it is felt that work will be most useful in helping management improve its systems. With our focus on the importance of management relating outputs to their cost and effect, and our knowledge of Medicine Hat College, we concluded that certain systems at the College should be examined.

It should not be assumed that similar recommendations to the ones made to Medicine Hat College do not apply to other institutions where such work was not carried out. Other institutions may be able to benefit from examining their own practices to determine whether the recommendations I have made are relevant to their environment.

Medicine Hat College

My staff carried out an examination of the College's costing and budget systems to determine if the Board of Governors and management have appropriate costing information to support decisions on the use of resources.

Costing system

> **It is recommended that Medicine Hat College improve the quality and timeliness of information provided to managers to promote the efficient use of resources.**

Managers cannot obtain pertinent cost information readily and easily. Consequently, some managers request reports from the Accounting Department, while others have developed stand-alone systems. These practices are inefficient. Furthermore, information on the College's costs of programs and services does not include indirect costs such as administration, facility maintenance, utilities and capital asset consumption. As a result, managers do not have all the information required for prudent fiscal management.

In response to my recommendation, the President indicated that improvements to information will be made within two to three years, as soon as systems upgrades are in place. The method of allocating indirect cost is presently being discussed with other colleges and

technical institutes, and the College is prepared to adopt a common Province-wide approach.

Budget process

> **It is recommended that Medicine Hat College adopt a formal budget process to ensure that institutional objectives and priorities are consistently applied.**

The College's existing budget-setting process does not link use of resources with desired results, and its use as a control mechanism is being defeated.

An examination of the use of budgets at the College indicated the following:

- It is not clear how the College's objectives and priorities influence the budgeted costs of various budget centres.

- College managers believe that any unused budget funds in a year result in lower budgets for the subsequent year.

- Expenditures are sometimes misallocated to avoid budget variances.

A budget should promote effectiveness. A budget is a necessary part of any accountability framework because it expresses objectives in dollar terms against which actual results can be measured.

In response to my recommendation, the President indicated that the Board of Governors has completed a values statement to be used as a guide in preparing the 1994-95 budget, and is developing a strategic plan for the College. The College's first three-year budget plan is to be completed by October 1994, and a formal budget planning guideline will be prepared.

Department of Agriculture, Food and Rural Development
year ended March 31, 1994

Surface Rights Board

It is recommended that the Surface Rights Board seek legislative amendments to enable it to pursue more cost-effective alternatives than paying landowners annual amounts in lieu of surface rentals.

The Surface Rights Act does not allow the Board to consider alternative courses of action, such as reclaiming the land, when deciding to compensate landowners for well operators who default on their obligations under surface rental agreements.

Surface rental agreements require operators to make annual rental payments for the right to enter land for the purpose of oil and gas extraction. When extraction is complete, the operator must obtain a reclamation certificate. If the reclamation certificate is not obtained, the well operator must continue to make annual rental payments. Reclamation is usually preferable because it allows the land to be returned to agricultural production, it reduces potential for the environmental damage to worsen over time, and it ends the operator's financial obligation.

When a well operator goes out of business or, for other reasons, fails to pay the surface rental, the landowner can apply for recovery under the Surface Rights Act. Landowners whose claims are approved by the Surface Rights Board are paid compensation for the surface rentals they have not received. During 1993-94, the Surface Rights Board paid compensation to 160 landowners being payment for 326 well sites of varying sizes.

When it is unlikely that a well operator will resume paying surface rentals, the Board is faced with the prospect of compensating the landowner on behalf of the operator for many years. In such circumstances, it can be more economical for the Board to find alternative ways of dealing with the situation. For example, reclamation of small well sites may be less costly than paying annual compensation forever.

It is acknowledged that legislative changes will be needed for the Board to be able to pursue alternatives. Such changes should take into account the related responsibilities in this area of the Department of Environmental Protection and the Energy Resources Conservation Board. I understand that the Surface Rights Board is currently exploring ways of reducing compensation costs.

Farm Credit Stability Program

In his 1992-93 annual report (page 63), the Auditor General recommended that the Department of Agriculture, Food and Rural Development measure and report on the reasonableness of the costs to operate the Farm Credit Stability Program.

The Department has begun to identify and measure the costs incurred to operate the Program since its inception. The reasonableness of the costs are being evaluated against alternative means of delivering the Program. I will continue to examine the Department's progress on this matter.

Alberta Agricultural Development Corporation
year ended March 31, 1994

(Effective April 1, 1994, the Alberta Agricultural Development Corporation merged with the Alberta Hail and Crop Insurance Corporation to form the Agriculture Financial Services Corporation)

Compliance with generally accepted accounting principles

It is recommended that the Agriculture Financial Services Corporation account for interest accrued on loans in accordance with generally accepted accounting principles, and acquire a loan accounting system, or improve the existing system, to provide the information needed to report on interest revenue, concessionary loans and impaired loans.

Inadequate accounting systems are still preventing the Corporation from accounting for interest accrued on loans where collection is not reasonably assured in accordance with generally accepted accounting principles.

In last year's Annual Report (page 64), the Auditor General referred to a Public Sector Accounting Statement issued by the Canadian Institute of Chartered Accountants in April 1993 which confirmed two accounting principles governing the reporting of loans and loan interest by public sector organizations.

The first principle is that interest income should only be treated as revenue in financial statements if, at the time it is billed or accrued, ultimate collection is reasonably assured.

The Corporation has acknowledged that its accounting systems are unable to produce the information needed to report in accordance with this principle. As a result, revenues in the financial statements include all interest accrued on loans, even though the ultimate collection of some of this interest is in doubt. To compensate for this treatment, the provision for doubtful accounts is increased to cover accrued interest where collectibility is doubtful.

Accordingly, the Corporation's operating results and deficit are properly stated in the financial statements, but interest revenue and doubtful accounts expense are overstated by equal amounts. Because both revenues and expenditures were overstated, I qualified my report on the Corporation's 1993-94 financial statements as required by generally accepted auditing standards.

The second accounting principle covered by the April 1993 Public Sector Accounting Statement applies to loans with significant concessionary terms. These are loans with interest rates significantly below the lender's average cost of borrowing at the date the loans were made. The concessionary portion of these loans must be accounted for by discounting the balance sheet values of the loans, and recording the discount as an expense in the years the loans are issued. In effect, the benefit conferred by the reduced interest rate is treated as a grant from the lender to the borrower.

The Corporation has some loans that were concessionary when issued, and these have been discounted accordingly. If future program changes result in the Corporation issuing many more concessionary loans, however, the Corporation's present accounting systems would likely be unable to handle the volume and variety of discounting calculations needed. This could lead to a further reservation in my report on the financial statements.

Another concern is that effective February 1995, the Corporation will be required to comply with the new accounting and reporting provisions on impaired loans. The accounting system will then be required to calculate the carrying value of impaired loans based on the net present value of estimated future cash flows.

Departures from generally accepted accounting principles are not mere technicalities of accounting. They result in management information being distorted.

The Corporation reported last year that it intends to replace the loan accounting system in 1997. This timetable will not enable the Corporation to comply with the reporting requirements for impaired loans.

Alberta Hail and Crop Insurance Corporation
year ended March 31, 1994

(Effective April 1, 1994, the Alberta Hail and Crop Insurance Corporation merged with the Alberta Agricultural Development Corporation to form the Agriculture Financial Services Corporation)

In addition to the annual financial statement audit, my staff completed an examination of the systems and procedures used by the Corporation to administer adjusting services.

Contract interpretation

Recommendation No. 10

It is recommended that the Agriculture Financial Services Corporation avoid paying incorrect claims by ensuring that its operating practices are consistent with the terms and intent of the crop insurance contract.

The Corporation assesses claims based on the date that the farmer reports the loss, which is not the basis required by the contract for crop insurance.

The settlement that farmers can receive under the Corporation's all risk crop insurance contract depends on when the event occurred that caused the loss. If the event causing the loss occurs before July 1, the Corporation has the option to pay the farmer either the related insurance premiums, or up to 50% of the amount insured. If the event causing the loss occurs after July 1, the farmer can be paid up to 100% of the amount insured.

In practice, however, the Corporation assesses claims based on the date that farmers report the loss, and not the date of the event that caused the loss. Farmers are generally allowed the choice of ploughing down and reseeding before July 1, or waiting until after July 1 to ask for an adjuster to make a claim. The contract of insurance, however, does not give the Corporation the option to offer farmers this choice.

Because of the way the Corporation has chosen to apply the contracts, farmers usually benefit financially by deferring their claims until after July 1. This is probably why the Corporation receives a large number of requests for adjusters each year during the first week in July.

It is unclear whether all farmers are aware of the Corporation's internal policy, or are advised of it if they report their loss in June. Some farmers who asked for an adjuster during June 1993 were advised of the policy, and deferred their claims until after July 1.

Just how much this internal policy costs the Corporation in additional claims cannot be computed with precision. However, two farmers who claimed in June, but then deferred their claims until July, had their claims increased by a total of $16,800.

It is acknowledged that establishing the exact date that a loss is incurred can be difficult, especially when the loss is caused by drought or infestation during the early growing season. Perhaps situations such as these need to be dealt with specifically in the contract of insurance. However, having a claims assessing policy that differs from the terms of the contract not only increases costs, but results in benefits being paid inconsistently.

Adjusting activities

It is recommended that the Agriculture Financial Services Corporation prepare a cost-benefit analysis to determine the appropriate level of adjusting activities needed to ensure economy and fairness in its insurance programs.

The Corporation is planning to reduce the level of its adjusting activities by 50%. A reduction in adjusting activities has been approved by the federal government, which cost-shares most insurance programs. It is unclear, however, to what extent the cost reductions will be offset by increases in claims due to program abuse or other non-compliance with contract requirements.

Adjusters perform a vital role in the Corporation's insurance operations. They are the "eyes and ears" of the Corporation. Adjusters inspect crops to ensure that the insured acres have been planted. They assess damage and measure harvested production. They assess penalties when losses are due to poor farming practices and other uninsured causes. In other words, the job of an adjuster is to detect program abuse, and to ensure that farmers receive all, and only those payments to which they are entitled. Since 1991, almost all harvested production, as well as all pre-harvest claims for damage, have been inspected by adjusters.

During 1993-94, the Corporation spent approximately $6.4 million on adjusting services. This was about the same amount that adjusters saved by identifying and eliminating uninsured causes from claims. The detection of uninsured causes, however, is not the only benefit of using adjusting services. A less tangible and more difficult impact to measure is the deterrent effect that adjusters have; that is, the extent to which their work deters claims for uninsured causes, and the submission of inaccurate information.

When considering changes to adjusting activities, the Corporation should strive to preserve the benefits of this activity while reducing the costs. This could be achieved by performing a risk assessment

and a cost-benefit analysis. A risk assessment should include a determination of the risk that farmers might over-report their seeded acreage, or under-report their production, and that the Corporation may fail to detect uninsured causes. A cost-benefit analysis should compare the savings obtained by reducing adjusting services to the increased cost associated with increased risks. Savings might also be achieved by finding more efficient and effective ways of performing adjusting activities. A critical examination of the tasks performed, the time taken to perform them, and their impact, could lead to the development of measurable standards and the identification of areas that need improvement.

Measuring production and assessing farming practices

It is recommended that, where possible, the Agriculture Financial Services Corporation require adjusters to use plant counts to determine appraised yields. It is further recommended that evidence be retained to support appraised yields and assessments of farming practices.

Adjusters do not always measure production and assess uninsured causes in the way required by Corporation policy, and the evidence retained to support these measurements and assessments is often inadequate.

Counting the number of plants growing in sample areas is the recommended way of measuring crop yields. Adjusters, however, sometimes use different methods to determine yields. In instances where a method other than plant counts is used, evidence is rarely retained to show how the measurement was determined.

Measuring production correctly is critical to determining yield, and ultimately affects the amount that can be claimed. A low measurement results in a higher claim. During 1993-94, there were situations where post-harvest measurements showed that earlier counts or other measurements had significantly overstated or understated yields. For example, a farmer was authorized by the Corporation to plough down his crop, but chose instead to harvest the crop. The yield he obtained was much higher than the estimate produced by the Corporation's plant count. As a result of harvesting the crop instead of ploughing it down, the farmer's claim was $27,500 less than it would have been if it had been based on the plant count. There were also situations where second counts indicated significant reductions in the yields that were initially determined. For example, in another field, a second plant count was performed one week after the first plant count. The second count showed an estimated yield 66% less than the first count. This resulted in an increased payment of $3,180, yet there was no evidence that field conditions had changed. The reasons for

discrepancies could not be explained because of the lack of evidence to support the earlier measurements.

Retaining proper information on farming practices, seeded acres, yields, production measurements and uninsured causes is important. It is used to identify the need for special inspections, to confirm measurements and assessments, and to support the Corporation's position in any appeal or court hearing.

Insurance coverage adjustments

In his 1992-93 annual report (page 66), the Auditor General recommended the Corporation review its practices governing when and how coverage adjustments should be allowed and changed, and retain information to justify such changes.

The Auditor General was concerned that inflated coverage adjustments would result in Alberta not being able to meet the test contained in the federal regulations which required, by April 1993, that the total crop insured annually not exceed the expected harvest. If that happened, the federal government could withhold funding.

During 1993-94, the Corporation and Agriculture & Agri-food Canada agreed on a method of calculating the amount that Alberta will be responsible for as a result of not meeting the test. As a result, the federal government will not pay matching premiums totalling approximately $15 million, and Alberta will contribute approximately $60 million to the Gross Revenue Insurance and Crop Insurance Plans to fund the additional claims paid. Also, the Corporation is retaining better information to support changes to coverage adjustments.

Operations

In his 1992-93 annual report (page 67), the Auditor General suggested that there were opportunities for the Corporation to reduce costs and deliver program benefits more consistently by adopting less flexible policies, adhering to policies more closely, and retaining better documentation. He recommended that the Corporation enforce its policies and exercise its contractual rights more strictly, thereby contributing to more consistent delivery of program benefits and cost savings.

The three areas discussed were deadlines, appeals and file documentation. The Corporation has since taken steps that will discourage farmers from missing deadlines. The Corporation is also in the process of revising the appeal process, and retaining better documentation. My staff will continue to examine the Corporation's progress in this area.

Gross Revenue Insurance Plan - operating guidelines

In his 1992-93 annual report (page 70), the Auditor General recommended that the Corporation ask the National Committee established under the Gross Revenue Insurance Plan agreement to issue regulations or interpretational guidelines covering those aspects of the Plan that remain uncertain as to meaning or interpretation, particularly those relating to farmers who leave the program.

The Corporation is now represented on the National Committee. The Committee has clarified rules for farmers who leave the program, with which the Corporation is now complying.

Western Irrigation District
year ended November 30, 1993

Compliance with Agreement

It is recommended that Western Irrigation District take steps to increase its awareness of the requirements of the Irrigation Rehabilitation Financing Agreement, and ensure that the District complies with those requirements.

The District breached important requirements of the Irrigation Rehabilitation Financing Agreement, resulting in a special investigation by the Irrigation Council.

During the year, Western Irrigation District received $2.5 million of Provincial funding from the Alberta Heritage Savings Trust Fund to spend on approved rehabilitation projects. Under the Irrigation Rehabilitation Financing Agreement, the Irrigation Council is required to pre-approve the scope and budgeted costs of all construction and rehabilitation projects. Once approved, a project qualifies to be cost-shared, with the Province bearing 86% of the costs and the District 14%.

An Irrigation Council inspection of the District's rehabilitation projects confirmed that the District was not complying with certain requirements of the Financing Agreement. In particular, a significant alteration to a major project had not been approved, and no application for approval had been submitted for a project that was substantially complete.

As a result, the Irrigation Council suspended approval of future projects and prohibited the use of Provincial funds on current projects that were not approved. These restrictions remained in force until the District had resolved all of the Irrigation Council's concerns.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1994:

Alberta Agricultural Research Institute
Alberta Dairy Control Board

Department of Community Development
year ended March 31, 1994

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1994:

Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Multiculturalism Fund
Alberta Sport Council
Culture and Multiculturalism Revolving Fund
Glenbow-Alberta Institute
The Government House Foundation
Historic Resources Fund
The Recreation, Parks and Wildlife Foundation

Department of Economic Development and Tourism
year ended March 31, 1994

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Alberta Heritage Foundation for Medical Research
year ended March 31, 1994

Disclosure of budget information in financial statements

It is recommended that the annual budget approved by the Board of Trustees be included in the Alberta Heritage Foundation for Medical Research's annual financial statements.

Almost all Provincial organizations now include budget information in their annual financial statements. This reporting practice improves accountability by enabling the Public Accounts Committee and other users of the statements to compare actual revenues, expenditures and cash flows with the amounts budgeted and approved by management. In other words, actual results can be compared to planned results.

The Board of Trustees sought Treasury Department approval to omit budget figures from the Foundation's financial statements. Although approval was not obtained, the Board chose to exclude budget figures from the Foundation's 1993-94 financial statements.

Alberta Research Council
year ended March 31, 1994

In addition to the annual financial audit, my staff completed an examination of the systems used to review and approve funding for research projects.

Grant investment review process

It is recommended that the Alberta Research Council compare sectoral investments based on their net present value to the Alberta economy. It is also recommended that research proposals submitted by sectoral task forces be more standardized as to form and content.

Each year, the Alberta Research Council allocates approximately $25 million to research projects. Allocations are approved by the Council's Grant Investment Review Committee which reviews proposals for funding submitted by the Council's sectoral task forces. The form and content of the proposals, however, vary so

much that the Committee's ranking of projects is sometimes based largely on qualitative considerations.

There are twelve sectoral task forces, and the proposals they submit contain various scenarios based on differing levels of Provincial funding. The quantity and variety of information in the proposals, and the differing formats in which it is presented, often make meaningful review or comparison difficult.

For example, some proposals use three-year planning horizons, others use longer periods. In addition, differing techniques are used to portray uncertainty and risk. It is hardly surprising, therefore, that Review Committee discussions often focus more on the merit of supporting facts, than on the congruency of proposals with the Council's overall business strategy.

The value of considering qualitative factors is undeniable. Used, however, without consistently applied quantitative information, qualitative factors can bias decisions, particularly decisions arrived at through advocacy.

The Grant Investment Review Committee could use a capital budgeting model utilizing net present value analysis techniques to compare proposals and allocate funding. Such a model could assist the Committee in allocating funding to projects that have the greatest potential to add value to the Alberta economy. Qualitative factors could then be used to assist in decision making where net present values are close, or where a high degree of uncertainty or risk exists.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1994:

Alberta Opportunity Company
Alberta Motion Picture Development Corporation
Chembiomed Ltd.
Tourism Education Fund
Tourism, Parks and Recreation Revolving Fund, and

Alberta Intermodal Services Ltd. for the year ended December 31, 1993

Department of Education
year ended March 31, 1994

Guidance to reader

Education in Alberta is delivered primarily through a network of schools within publicly funded school jurisdictions. Authority over these jurisdictions is given to publicly elected school boards. This delegation of authority carries with it a responsibility to be accountable. Accountability involves explaining what was achieved with the resources and authority provided.

The recommendations in this section are intended to strengthen the accountability of the education sector. In the first point, I recommend that a framework of accountability to the Legislature be established. The recommendations that follow are aimed at improving the information that will be reported within this framework.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the accountability provisions contained in the School Amendment Act 1994 (Bill 19).
- An examination of the system for reporting the performance of the special needs education program.
- An examination of the school boards' system of financial reporting to the Department to determine whether the boards provide useful information on the cost of education programs.

Accountability of the education system

Recommendation No. 11

It is recommended that the Minister of Education table in the Legislature a report on the performance of school boards.

School boards are excluded from the reporting and accountability requirements specified in the Financial Administration Act. A review of the School Amendment Act 1994 (Bill 19) indicated that impending legislation will still not provide an alternative public accountability framework.

The Legislature decides on the grants to be paid to school boards. Therefore the Legislature should receive information on how the funding was used, including information on the cost and effectiveness of the education services provided.

A principle articulated in the Budget '94 documents is that "the government will be accountable to Albertans for how their money is

spent. Progress in meeting identified goals will be reported in clear, measurable terms." A goal of the 1994 Education Business Plan is to establish a more accountable education system; that is, one which reports to the public on performance and cost. The Department currently publishes Plans and Report Cards on the performance of the education system. The Department's commitment to accountability and the resulting public reporting process, however, are not reflected in legislation.

An accountability framework for the education system should be reflected in legislation. In time, specific information requirements could be defined in regulations. This framework should:

- Require business plans and performance information, defined in regulations, for each school board.
- Require that audited financial statements for each school board be consistent with generally accepted accounting principles.
- Require the Minister to table in the Legislature a combined financial statement on the results of school board operations showing budget and actual information.
- Require the Minister to table an annual report in the Legislature on the cost and effectiveness of the education services provided. The contents of the annual report should be defined in regulations.

It has been suggested that legislation is needed to establish a framework for accountability to the Legislature, including accountability for major funding to organizations not subject to the Financial Administration Act. Pending such legislation, the Department should adopt an alternative accountability reporting framework for the Province's education system. Such accountability reports should encompass the costs incurred by the Department and all other costs relating to the provision of education.

Costs of education

Recommendation No. 12

It is recommended that the Department of Education require that financial statements for each school board be prepared in accordance with generally accepted accounting principles.

School boards' financial statements do not include the amortization of capital assets. In addition, some boards accrue costs for goods ordered but not yet received.

The most recent Department summary of school board financial statements is for 1991-92 and reports capital assets of $3.7 billion. The consumption of these capital assets is a significant cost, and recording of amortization is necessary to determine the cost of education. The inclusion, by some boards, of commitments for goods ordered but not yet received, may significantly overstate costs, and reduce comparability between school boards.

Requiring boards to report financial information in accordance with generally accepted accounting principles will promote consistency and comparability between school boards. It will also ensure that accurate and complete costs of education are reported.

This observation relates to the recommendation in last year's report (page 85), in which it was recommended that the Department analyze the financial statements of school boards to improve its understanding of the differences in school board operations. The Department indicated that the development of a new funding framework will lead to improved comparability and consistency among school boards. By the 1995-96 reporting year, the Department expects to be able to perform a meaningful analysis of school board operations. Before it can do this, however, the Department must ensure all costs are included and that the reported financial results of school boards are comparable.

Cost presentation

Recommendation No. 13

It is recommended that the Department of Education require school boards to include in their financial statements information which links costs with results.

The current presentation of the financial results of school boards does not enable a comparison of the costs incurred to the achievement of certain educational results.

School boards currently present costs in broad functional expenditure categories including instruction, operation and maintenance, administration and transportation. With this kind of presentation, it is not possible to relate costs incurred to the results generated by the educational system.

For example, a desired result of the education system is a grade twelve graduate who has attained the educational standards set by the Department. Intermediate results are students who achieve the Department's standards while graduating from elementary and junior high schools. With the current financial presentation, however, it is not possible to link these results to their costs. That is, the Department does not know what it costs to produce a graduate. If

the cost were known, then comparisons with other provinces and between school boards would be possible, thereby identifying areas where savings could be realized.

Special needs program expenditures

Recommendation No. 14

It is recommended that the Department of Education request school boards to provide information which relates special needs program expenditures to services delivered and the number of students served.

The Department cannot determine how funds for special needs education have been spent.

In 1993-94 the Department provided $118 million to school boards for special needs education. The funding is intended to provide a range of services to approximately 50,000 special needs students who are either mildly to severely handicapped or gifted and talented.

Current school board annual reporting does not relate special needs education expenditures to services delivered, and the number of students served. For example, a major school board reported that it spent 12% of its total expenditure on special needs education, while another comparable school board reported that it spent only 6%. Without proper information it is difficult to tell how much of the difference was due to different numbers of students, different levels of service, or inconsistent costing.

Consistent financial reporting which relates costs to the level of services provided and the numbers of students served, will enable the Department to evaluate the efficiency of the program in relation to the funding provided, and will act as a suitable base for assessing future funding requirements.

This builds on the recommendation made in last year's report (page 86), in which it was recommended that the Department obtain the necessary information to determine that specific grants to school boards are spent on the designated programs.

The Department has indicated that as part of the process to develop a new funding formula to replace many specific grants, the concerns raised will be addressed. I will continue to examine the Department's progress on this matter.

Education Revolving Fund
year ended March 31, 1994

Inventory management

It is recommended that the Education Revolving Fund and the Department of Education take action to reduce the levels of inventory, and the incidence of inventory obsolescence.

The Fund's inventory levels continue to be high in relation to sales. Inventory at the 1994 year-end amounted to $10.9 million, representing 196 days' sales. Existing warehouse space is overcrowded, and inventory is being stored at suppliers' warehouses, resulting in additional costs to the Fund. Further, the Fund incurs significant annual charges for the write-off of obsolete stock. In 1994, obsolescence costs totalled approximately $1.4 million.

I believe that with appropriate information, Fund management together with the Department of Education, could significantly reduce the levels of inventory and the cost of obsolescence.

Other entities

Financial audits of the following were also completed:

Northland School Division No. 61 - year ended August 31, 1993
School Foundation Program Fund - year ended March 31, 1994
Teachers' Retirement Fund - year ended August 31, 1993

Department of Energy
year ended March 31, 1994

Enhanced Oil Recovery program, method of determining relief

In his 1990-91 annual report (page 52), the Auditor General commented that the method used by the Department prior to June 1990 for determining the amount of Enhanced Oil Recovery relief available to a royalty payer was not consistent with the enabling legislation. The Auditor General recommended that the Department of Energy seek amendments to section 11 of the Petroleum Royalty Regulation under the Mines and Minerals Act in order to clarify how the program should be administered.

I am pleased to note that amendments to the Petroleum Royalty Regulation, which came into effect on January 1, 1994, have resolved this concern.

Alberta Oil Sands Technology and Research Authority
year ended March 31, 1994

Fund management

> **It is recommended that the Alberta Oil Sands Technology and Research Authority discontinue the practice of amending terms of agreements to manipulate financial results.**

The Authority funds a number of research projects where the amount and timing of funding is specified by agreement with participants. For other projects, funding is based on the actual expenditure incurred. Revenues for the use of Authority-owned technologies are accrued based on agreements with users.

For the past few years, management has amended existing agreements at the year end to allow additional payments from available funds, or to defer revenues otherwise due to the Authority. I believe that these amendments were designed to alter the financial results of the Oil Sands Technology and Research Fund.

For example, in March 1994, management estimated that the Fund would have a surplus of $1.8 million at March 31, 1994. The Authority amended an agreement to allow for an option to pay, in 1993-94, $1.2 million originally payable out of the 1994-95 budget. However, subsequent additional expenses of $1 million were identified on expenditure-based projects, and the option was not exercised.

I believe that the practice of amending agreements to accelerate expenditure or to defer revenues to manipulate financial results is inappropriate.

Previous recommendations

In the February 1994 Speech from the Throne, the Lieutenant Governor announced a major restructuring of the Energy Ministry including the transfer of the Authority's responsibilities to the Department of Energy. The transfer is expected to be completed by March 31, 1995.

In his 1992-93 annual report (page 90), the Auditor General recommended that the Alberta Oil Sands Technology and Research Authority improve its Annual Report by including assessments of its activities. The Authority's 1992-93 Annual Report was an improvement from previous reports to the extent that it highlighted the Authority's overall objectives in each area of research. However, I believe that the Annual Report can be further improved by including performance information so that readers can assess whether resources are used efficiently. I will continue to examine the Authority's progress in this area.

In his 1992-93 annual report (page 90), the Auditor General recommended that the Authority provide the Minister of Energy with timely and appropriate information about its decisions and activities regarding the Underground Test Facility. The Authority and the Minister have now established the nature and frequency of information to be provided for all the activities of the Authority.

In his 1992-93 annual report (page 93), the Auditor General also recommended that the Authority improve the way that it classifies, budgets and discloses its administration costs. Management has indicated that the existing practices of the Department of Energy will be adopted for budgeting and reporting purposes. I will continue to examine the Authority's progress in this area.

In his 1992-93 annual report (page 93), the Auditor General recommended that the Authority improve the system to identify and quantify its revenues. The Authority is in the process of creating a database of information on its projects including the amount and frequency of revenues expected from such projects. I will continue to examine the Authority's progress on this matter.

Energy Resources Conservation Board
year ended March 31, 1994

In addition to the annual financial audit, the following work was completed:

- An examination of the methods used by the Board to establish its budget.
- An examination of the process used by the Board to acquire and implement new accounting software.
- An examination of the systems used by the Board to monitor the activities of the pipeline department.

Setting user fees

It is recommended that the Energy Resources Conservation Board develop a system to determine the costs of the services it provides in order to establish appropriate rates for these services.

The Board does not have sufficient information on the cost of its services. Thus, it can neither set the user fee based on costs incurred, nor demonstrate the need for any changes to the user fee.

The Board's activities are mainly funded by a Provincial grant and an administration levy charged to industry. The administration levy is intended to fund only oil and gas regulatory activities. In addition, the Board charges for services such as application processing, and for providing certain types of industry-related information. Any costs not recovered from users are therefore subsidized by the grant and levy.

Although it is not always appropriate to base user fees on cost, it is the general policy of the Board that services are to be provided on a user-pay, cost-recovery basis. However, costs incurred by one department to service the needs of another department are not always considered in setting user fees. For example, costs incurred for computer processing, and systems development are not considered when determining the user fee for a drilling application. Similarly, other costs such as the amortization of capital assets, legal services and financial services are also ignored.

The Board should determine the cost of its services to demonstrate the need for any changes in user fees.

Reporting results

It is recommended that the Energy Resources Conservation Board improve the reporting of the costs of its activities.

The Board carries out various activities including providing a number of services to the energy sector. Industry and the Province each contribute approximately $20 million to the Board annually. The financial results of the Board are included in the Public Accounts of the Province. The annual "Energy Alberta" publication reports the activities of the Board for a calendar year. However, these sources do not provide sufficient performance measurement information to enable readers to assess how efficiently and effectively the activities were performed.

For example, "Energy Alberta" reported in calendar year 1993 that the Board processed over 18,000 applications for new or changed facilities, an increase of 55% from the previous year. However, there is no indication of the incremental cost to the Board of this level of activity, or how the cost per application compared to established targets, or to the previous year. Also, during 1993, Board staff made over 18,000 site inspections of facilities. There is no indication of the cost per inspection, how it compared to the previous year, or against set targets. In summary, the report does not provide sufficient data for readers to be able to assess whether the Board is managing its activities effectively.

Other entities

Financial audits of the following were also completed:

540540 Alberta Ltd. - period ended March 31, 1994
(Provides funding for operating shortfalls incurred by the Lloydminster Bi-provincial Upgrader Project)
Alberta Electric Energy Marketing Agency
- year ended March 31, 1994
Alberta Petroleum Marketing Commission
- year ended December 31, 1993
Province of Alberta Investment in Syncrude Project
- year ended March 31, 1994
Public Utilities Board - year ended March 31, 1994
Take-Or-Pay Costs Sharing Fund - year ended December 31, 1993

Department of Environmental Protection
year ended March 31, 1994

Guidance to reader

The observations and recommendations that follow indicate opportunities for the Department to improve the financial management of its programs.

The first recommendation covers the need for environmental liabilities to be recognized and recorded on a timely basis. Liabilities that arise from environmental concerns can be significant, yet these costs are often recorded years after the concern is recognized. The recommendation encourages the Province to record environmental liabilities as they become known, rather than when the remedial work is done, so that the true cost of delivering programs can be determined.

The second group of recommendations focuses on improving the information used to manage the Province's fish resources. The recommendations encourage the Department to develop goals against which the success of divisional activities can be measured.

The last group of recommendations suggests improvements to the systems used to collect timber revenues by the Department and surcharge revenue by the Tire Recycling Management Board.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department and certain other government entities to identify and record environmental liabilities.

- An examination of the information systems used to develop goals concerning fish habitats, and to support fishing in Alberta.

Environmental liabilities

Recommendation No. 15

It is recommended that the Minister of Environmental Protection co-ordinate the development of a policy to address the identification and recording of the Province's environmental liabilities.

There is no system in place to ensure that all of the Province's environmental liabilities are identified.

Environmental liabilities arise when action is necessary to repair damage to the environment. Usually, the person or company that caused the damage is responsible for the restoration costs.

The Department of Environmental Protection, however, has identified a number of sites where environmental damage has occurred, and where the entities responsible for the damage either cannot be identified, or lack the resources necessary to remedy the damage. In the Department's "Help End Landfill Pollution Program", five properties have been identified that need attention. The estimated costs to manage the environmental risks associated with these sites greatly exceed any potential future recoveries and, in one case, the costs incurred over time may be in the millions of dollars.

The Department's current practice is to account for these costs when the Department performs the restoration work, but this practice is not consistent with generally accepted accounting principles. For both accounting and management information purposes, the Department needs to identify situations where it is likely to incur future costs due to existing ecological concerns or other reasons. These costs meet the accounting definition of a liability, and should be accrued as such in the financial statements of the General Revenue Fund of the Province. Unless these costs are recorded as and when they are identified, program cost will be incomplete.

Potential for environmental liabilities also exists in other Provincial government agencies and departments, particularly those that have large land holdings or are involved in activities that disturb the land surface. While certain organizations, such as Alberta Special Waste Management Corporation and Alberta Research Council, have agreed to identify and record any environmental liabilities, some lack the necessary information and expertise.

It seems appropriate that the Minister of Environmental Protection take a lead role in developing guidelines and procedures for a coordinated approach to the identification and recording of environmental liabilities.

Fish management strategy

It is recommended that the Fish and Wildlife Services Division of the Department of Environmental Protection set measurable goals against which the performance of its fish management activities can be measured, and obtain better information to enable the Division to evaluate and report on the success of those activities.

The Division is faced with the need to respond effectively with a relatively modest budget to increasing demands for the supply of fish. The Division has not, however, set goals for the mix of fish populations it is trying to achieve. As well, the information used to assess whether fish management and stocking activities are successful is incomplete.

The Division manages fish populations and habitats in 313 of the Province's waterbodies, including lakes, streams, rivers and irrigation canals. This includes managing fish habitats, measuring fish populations, and stocking many waterbodies, primarily with trout or walleye. While the Division's budget is modest when viewed in the context of the Department as a whole, fish management activities have a large impact on the Province's economy. The direct benefit of sports fishing on the Alberta economy during 1990 was estimated at almost $500 million.

Many waterbodies are stocked annually based on requests from the Division's regional offices. However, information to support these stocking requests is inadequate. Given that fish is a limited resource, a first step towards improving this information would be to set fish species targets for the waterbodies. As well, periodically the Division needs to update its information about the viability of waterbodies to support fish populations.

Better information could then be generated to assess whether fish management and stocking activities are successful. At present, available information of this nature is limited. For the two northern regions, for example, some information is obtained from a limited number of interviews with fishermen, but only a few of the stocked waterbodies are sampled each year to measure the growth and age of the fish populations. Although the Division has prepared an initial plan to evaluate walleye populations in certain waterbodies, an overall plan is needed to evaluate and report on the success of the Division's stocking activities. Evaluation of current fish management strategies could help to promote the maintenance of adequate fish resources in future.

Management information systems

It is recommended that the Fish and Wildlife Services Division of the Department of Environmental Protection improve its costing of the types and sizes of fish produced in its hatcheries, and include all the costs involved.

Systems used by the Division to manage fish produced at hatcheries provide insufficient information on costs.

Government owned hatcheries produce the rainbow, brook, brown, cutthroat and lake trout, and walleye populations used to stock waterbodies. Due to space limitations, the hatcheries can produce only a limited number of fish. Different species grow at different rates and, as a rule, larger fish take longer and are more expensive to produce than smaller fish. Larger fish, however, usually have a better survival rate once they are released, but restricting production to only large fish may reduce the numbers produced to below the levels required by the sport fishing industry.

To manage fish stocking effectively, the Division needs information about the optimum mix of size and species, and the costs of producing each. At present, however, the Division's systems can only produce the average cost of all fish produced. And this information is incomplete because it does not include all overhead costs related to fish management. If all costs associated with fish production and management were included, the Division could compare and report its performance in terms of cost per fish produced with other entities that produce fish.

Accounting controls over timber rentals and fees

It is recommended that the Department of Environmental Protection improve financial control over certain of its revenue accounting systems, and provide the Treasury Department with year-end information that is accurate and complete.

Inadequate controls over the recording of timber rental and fee revenues resulted in inaccurate amounts being reported to the Treasury Department for Public Accounts reporting purposes.

There were numerous inaccuracies in the timber rental and fee revenue accounting records, many of which would have been identified if the accounting records had been reviewed periodically by Departmental staff. For example:

- a number of amounts due were not recorded as accounts receivable,
- certain revenues were not recorded until payment was received,
- the accounts receivable records had many credit balances that should have been recorded as revenue,
- a large accounting adjustment was processed twice in error, and
- revenue relating to future periods was not always deferred.

In total, errors detected during the audit had resulted in revenue being under-reported by about $1.3 million.

In addition, procedures for following up past due accounts receivable were inadequate. Despite past due balances and accumulating interest charges on some accounts, there was little evidence that the Department was actively pursuing collection. Following audit enquiries and follow-up action by Departmental staff, some of these outstanding balances were paid promptly.

The control deficiencies that allowed these accounting errors to remain undetected increase the risk that amounts owed to the Department will not be identified and collected.

Another concern was with the way refunds were processed. During the first six months of fiscal 1993, cheques for 1,600 refunds were processed for all revenue and trust accounts, including timber accounts, maintained by the Department. Many of these cheques were merely to effect transfers from a revenue account to a trust account. The transfers occur because most receipts are first recorded in a suspense account and are subsequently transferred to the correct account. This number of refunds significantly exceeds the volumes handled by any other government department.

This method of recording receipts is a labour intensive, and relatively expensive, process. It also complicates the follow up of overdue accounts, and the determination of year-end balances. A better system would be to deposit receipts into the proper account when first received.

Compliance with regulations

It is recommended that the Department of Environmental Protection ensure compliance with the legislation governing the collection and refunding of timber dues, or seek legislative amendments to legitimize alternative practices.

Two cases were identified where timber dues or permit revenues were not collected or refunded in accordance with the regulations.

An amendment to the Timber Management Regulation substantially increased timber dues effective January 13, 1994. An exception was made for timber held in mill yards at January 12, 1994, which could be levied at the old rate providing that an audited yard inventory was sent to the Department by March 1, 1994. However, the letters sent by the Department to timber companies notifying them of the rate increase did not mention the required reporting date for audited inventories, with the result that few were submitted. Ultimately the Department decided not to require those who had not submitted audited inventories by March 1, 1994 to pay the increased rate on sales from their January 12, 1994 inventories, even though this contravened the Regulation.

As well, the Timber Management Regulation allows timber permit fees or deposits relating to unused quotas to be refunded, provided that an application is received within one year after the expiry date of the permit. The Department estimates however, that in practice approximately 25% of timber permit refunds are processed beyond the one year deadline.

Alberta Special Waste Management Corporation
for the year ended March 31, 1994

Site restoration costs

It is recommended that the Alberta Special Waste Management Corporation estimate the costs of site restoration for the Alberta Special Waste Treatment Centre, and record the liability in the Corporation's financial statements.

The Corporation participates in a joint venture that owns the Alberta Special Waste Treatment Centre at Swan Hills. A 1993 amendment to the joint venture agreement makes the Corporation responsible for any required site restoration costs. The likely cost of any site restoration has not been determined, and therefore a liability has not been recorded in the Corporation's financial statements. Due to the nature of the Centre's business, the cost that will eventually be paid is likely to be significant.

When it is expected that assets such as the Alberta Special Waste Treatment Centre will continue to be used in the future, generally accepted accounting principles require that all reasonably determinable site restoration costs be provided for in the financial statements. These costs are to be recorded in a rational and systematic manner by charges to income. To comply with these principles, the Corporation needs to determine the costs that will likely be paid, and then record a portion of these costs annually on its financial statements. This information is needed, not only for financial statement purposes, but also for long-range financial planning. Including these costs will enable the Corporation's financial statements to reflect the complete cost to the Province of operating the Swan Hills plant.

The Corporation has agreed to obtain this information and make the necessary accruals.

Alberta Environmental Research Trust
year ended March 31, 1994

Annual budgets

It is recommended that management prepare an annual budget for the Alberta Environmental Research Trust.

Almost all Provincial organizations now include budget information in their annual financial statements. This reporting practice improves accountability by enabling the Public Accounts Committee and other users of the statements to compare actual revenues, expenditures and cash flows with the amounts budgeted and

approved by management. In other words, actual results can be compared to planned results.

Budgeting is an integral part of accountability and financial management responsibilities. Budgets based on reasonable assumptions constitute action plans for the achievement of objectives. I believe that the importance of preparing budgets for the Trust and using them to manage financial operations has increased since the government will no longer be providing annual operating grants for the Trust.

Forestry, Lands and Wildlife Revolving Fund
year ended March 31, 1994

Software purchases

It is recommended that the Land Information Alberta component of the Forestry, Lands and Wildlife Revolving Fund ensure that a better evaluation of software needs is done for future purchases and, if current software licences become surplus, that immediate plans are made to use any residual rights.

The activities of the Forestry, Lands and Wildlife Revolving Fund are administered in common by the Minister of Environmental Protection, the Minister of Municipal Affairs and the Minister of Agriculture, Food and Rural Development. Land Information Alberta is one of the components of the Fund and, as such, its financial results are reported as part of the Forestry, Lands and Wildlife Revolving Fund financial statements. During the year it was determined that a computer software license purchased at a cost of $300,000 was no longer needed by Land Information Alberta. Accordingly, the license, with an unamortized balance of $238,404, was written off in the Revolving Fund's financial statements.

When it was determined that the license was no longer required by Land Information Alberta, a credit for the unused portion was obtained from the software manufacturer. The credit can be used by Land Information Alberta for purchases of the manufacturer's listed products up until May 29, 1995. Any balance remaining can be used by other Provincial government entities between the period November 1, 1994 and May 29, 1995.

The availability of the credit had been discussed at several interdepartmental meetings, and Alberta Registries had been advised in writing. However, until my staff enquired about the likelihood of the future use of the credit, very little had been done to ensure that the credit would be fully utilized by other government entities, and the Fund reimbursed for the use of the credit. For example, efforts

had not been made to get other Provincial government users of the software to commit to needed purchases. When such efforts were made near the end of the audit, it appeared that only minimal reimbursement for use of the credit would be made to Land Information Alberta. For this reason, the remaining balance of the software licence was expensed in the financial statements.

Better evaluation of the software needs of Land Information Alberta might have avoided this write off. As well, Land Information Alberta should have acted more promptly and decisively to develop a plan to mitigate the loss incurred by the Fund.

Tire Recycling Management Board
year ended March 31, 1994

Collection of tire surcharge revenue

In his 1992-93 annual report (page 98), the Auditor General recommended that the Tire Recycling Management Board maintain procedures capable of ensuring that surcharges due to the Board are collected.

Controls to ensure that all surcharge revenue was collected were lacking. This resulted in a reservation of opinion in the auditor's report on the Board's 1992-93 financial statements. During 1993-94, collection controls were improved and procedures were put in place to ensure that all tire retailers are identified and registered with the Board. As well, a program of compliance reviews of retailers' records was implemented and the number of registered retailers who had never remitted was reduced significantly. As a result, I was able to report without reservation that tire surcharge revenues were reported fairly in the Board's 1993-94 financial statements.

Method of assessing tire surcharge revenue

Recommendation No. 16

It is recommended that the Tire Recycling Management Board provide the Minister of Environmental Protection with the information needed to assess whether the current method of collecting tire surcharges is cost-effective, and whether the method is having any impact on tire consumers.

This recommendation expands on the recommendation made in last year's report (page 100), which suggested that the Board should consider alternative ways of collecting surcharge revenue. The Board has yet to address this concern.

The method of collecting surcharge revenue is administratively time-consuming and relatively expensive. The Board collects the

surcharge from approximately 1,600 retailers. By the conclusion of the audit, 600 retailers had not remitted or reported amounts owing for March or earlier months. Approximately 100 of these retailers had not remitted or reported amounts owing for more than 6 months. As a result of this, considerable effort was needed at year-end to estimate the amount owed to the Board.

Since this is a self-assessment system, the Board must also perform compliance reviews to check whether retailers are remitting the correct amounts. The cost of these compliance reviews is approximately $120,000 per year. Extrapolating the results of the reviews indicates that although the Board is collecting approximately 96% of the surcharges due, approximately $600,000 relating to the last two years is unlikely to be identified or collected. Management has concluded that the cost of identifying and collecting this unreported surcharge would exceed any additional amounts that could be collected.

Administratively less expensive ways of collecting this surcharge could include collecting the surcharge as an addition to a fee that is already collected, such as the motor vehicle licensing fee. Retailers' administration costs would also be reduced if such a method was used.

It is acknowledged that an alternative collection method would reduce the visibility of the surcharge to consumers. An important reason for levying and collecting the tire surcharges in the way that they are is to make consumers aware of the environmental costs associated with tire disposal. It was noted however, that although many retailers show the surcharge on their invoices, there is still no clear evidence that levying it at the retail level is having any effect on consumer behaviour. As well, the Board should consider whether there are less expensive ways of increasing consumer awareness.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1994:

Environment Council of Alberta
Environmental Protection and Enhancement Revolving Fund
Natural Resources Conservation Board

Department of Family and Social Services
year ended March 31, 1994

Guidance to reader

The audit observations and recommendations that follow direct the Department's attention to opportunities for reducing program costs without sacrificing the quality of services provided. The areas examined were selected after considering the Department's objective of keeping families responsible and accountable, adults independent, and children safe.

The first group of recommendations covers the Department's main adult assistance program, Supports for Independence (1993-94 spending - $834 million). The recommendations encourage the Department to review the eligibility of clients receiving transitional support, and to continue to pursue opportunities for improving the accuracy of client data by matching it to data maintained by other agencies.

The second group of recommendations covers two programs that assist families with children: Child Welfare (1993-94 spending - $164 million) and Day Care (1993-94 spending - $73 million). The recommendations suggest that the Department assess the cost of acceptable alternatives when deciding on the appropriate method of supporting children, and also determine the costs and impacts of providing day care benefits to certain parents.

The third group of recommendations suggests improvements to the method of allocating funding to the Department's six regions when contracting with agencies that provide services to persons with disabilities (1993-94 spending - $72 million), and also encourage more accurate recording of information regarding the contracts.

The last group of recommendations relates to federal cost sharing under the Canada Assistance Plan (1993-94 claim - $625 million). The recommendations suggest improvements in the way that certain payments are being cost-shared.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of benefit payments under the Supports for Independence and Assured Income for the Severely Handicapped Programs.

- An examination of the payments made to clients for transitional support under the Supports for Independence program.

- Audits of the 1992-93 cost-sharing claims under the Vocational Rehabilitation of Disabled Persons Agreement and the Canada Assistance Plan Agreement with the Government of Canada, and an examination of the systems used to generate these claims.

- An examination of the processes used to determine the eligibility of parents for daycare subsidy.

- A further examination of the systems used to administer the Child Welfare Act.

- An examination of the administration of funding to agencies under the Services to Persons with Disabilities Program.

Supports for Independence - transitional support costs

Recommendation No. 17

It is recommended that the Department of Family and Social Services review the eligibility of Supports for Independence clients who are classified as in need of transitional support.

Some Supports for Independence clients are categorized as being in need of transitional support because they have temporary medical conditions. Unlike other clients who receive benefits under this program, transitional support clients are not expected to seek work or to obtain training. There is evidence that significant savings could be achieved by identifying clients who should not be in this category, or who could be given earlier training and employment advice, thereby enabling them to leave the Supports for Independence Program sooner.

At June 30, 1994, transitional support clients with temporary medical conditions comprised almost 15% of the Supports for Independence caseload. During 1993-94, these clients received direct financial assistance totalling approximately $110 million.

A sample of transitional client files examined during the audit raised concerns about the appropriateness of the categorization of many of these clients as transitional. Of the clients whose files were examined, 9% should never have been categorized as transitional. As well, the average length of time that the clients in the sample had been receiving support for temporary medical reasons was two years, and one client had been receiving it for 18 years.

More than half of the clients' files lacked the required medical evidence to support their continued categorization as transitional. Evidence was incomplete or missing on the nature of the health problems, recommended treatments, anticipated recovery periods, and future employment and training potential. Some clients were

continuing to receive transitional support after the date that their physicians had indicated that they would be able to return to work or commence employment training, yet there was no medical update on file. Some of these classifications had continued for extended periods, suggesting that follow-up by Department staff needs improving.

The nature and extent of these concerns suggest that a review of clients categorized as transitional is warranted. The Department might also want to consider encouraging transitional support clients whose temporary medical conditions permit, to undergo training.

Cost of benefits to clients with disabilities

In his 1992-93 annual report (page 104), the Auditor General reported that the Department was not identifying in the Public Accounts the full cost of all benefits and services provided to disabled clients, and was not accumulating and monitoring the costs of all benefits and services provided to individual disabled clients.

The Department has since modified its computer system to include a separate category for clients with disabilities, and monthly, quarterly and annual reports are being generated. As well, the Department is establishing a system that will report on the cost of services provided by agencies for disabled clients and combine these with its own service delivery costs to those individuals.

Supports for Independence, under-declared assets and income

In his 1992-93 annual report (page 108), the Auditor General reported that the Department could make better use of computer matching to detect program abuse, as data matching presents an economical way to realize potentially large savings. In particular, the Auditor General was interested in the feasibility of data matching with Revenue Canada.

The Department has made progress in this area, and is negotiating with the federal government. In addition, Alberta is now matching information with British Columbia, and agreements have been reached for data matching with Saskatchewan and Manitoba. I will continue to examine progress in this area.

Long-term costs of children in care

Recommendation No. 18

It is recommended that the Department of Family and Social Services estimate and take into account the cost of acceptable alternatives when deciding on the most appropriate method of supporting children in need of protection.

The Department has a number of ways of helping to ensure the survival and security of children whose protection becomes the Department's responsibility. These range from providing support to

the child's family, to placing the child in government care. When selecting from acceptable alternatives, however, the Department does not consider the anticipated costs.

There are approximately 3,000 children in the Department's care. Many of these children have been, and will likely remain, in the Department's care for years. Departmental figures indicate that the direct cost of supporting a child in government care ranges from $16,000 to $82,000 per year. The cost of supporting a child within its family is usually significantly less. While cost considerations should never override concerns relating to the children's protection and treatment, it seems reasonable that the anticipated cost of providing support should be taken into account when deciding on the support to be provided.

More than just the costs of direct support and purchased services should be taken into account. All Departmental staff, administration and overhead costs will need to be factored in to the costing of acceptable alternatives. Furthermore, costs will need to be projected over the expected duration of the care or support period. Including cost as a factor in the decision-making process should enable the same quality services to be provided to children, but at a lower cost.

Child Welfare Services, assessment of prospective adoptive parents

In his 1992-93 annual report (page 113), the Auditor General recommended that the Department take steps to have home assessments for prospective adoptive parents performed more quickly, thereby speeding up the successful matching of children for adoption. The Auditor General also suggested that the Department consider charging user fees for home assessments related to international and private adoptions. Alternatively, some prospective adoptive parents could be referred directly to licensed private agencies which could perform their home assessments.

The Department has improved its home assessments process, and additional funding is being provided to help clear the remaining backlog. The Department is also exploring the legal implications of licensing private agencies to conduct home assessments for private and international adoptions. I will continue to examine the Department's progress.

Day Care Subsidy Program - performance measurement

It is recommended that the Department of Family and Social Services determine the costs and impacts of the day care subsidies and services provided to parents who are searching for jobs or have special needs.

The Department's information about the costs and effects of the Day Care Subsidy Program is incomplete.

It is becoming increasingly important for program managers to know the full costs of the services they provide and, where possible, the effects of providing those services. Although the Department knows the amount of direct per-parent day care subsidy it provides, it does not know the per-parent cost of other related services provided under the Program. Furthermore, little information is available to measure the effect of providing the subsidies and services.

The Program provides day care benefits and services to parents searching for a job. The Department's policy is to provide benefits to new applicants for two or three months, after which, if the parent has not found employment, the situation is reviewed. During a three month period, benefits for a parent with two pre-school children would amount to almost $2,000. No efforts are made during this period to determine whether the parent is actively seeking work, or is doing so in a planned and organized way. Furthermore, information is not generated on the success of these parents in finding work, or the full per-parent costs of the benefits provided. Costing services and assessing effects enables management to direct resources towards the most useful services, and can help identify unproductive expenditures.

The effectiveness of these services could be improved by evaluating the parent's job search skills and intentions at the outset. Coaching or other needed assistance could then be provided as necessary. Periodic contacts to assess progress and gather information to measure the program's results could help to improve the Program's effectiveness.

The Program also provides day care benefits to parents with temporary special medical needs. Here again, the Department rarely monitors "special needs" parents to determine whether they are undergoing treatment for their condition, or to determine whether failure to respond to treatment may indicate that seeking assistance under an alternative program may be more appropriate. Obtaining at the outset better information about a parent's needs, the medical treatment recommended, and the expected response to that treatment, would enable assessors to monitor the continued eligibility of parents for special needs day care subsidy.

Day Care Subsidy Program - changes in clients' circumstances

It is recommended that the Department of Family and Social Services ensure that changes in the eligibility criteria of clients who receive benefits under Day Care Subsidy Program be identified and actioned promptly.

The Department needs to ensure that the system used to manage the Day Care Subsidy Program is updated promptly when changes occur in the circumstances of clients. Otherwise, incorrect benefits can be paid, and federal cost-sharing claims can be inaccurate.

Changes in clients' circumstances can change their eligibility for benefits. Over the years, the Department has developed a number of ways of ensuring that Supports for Independence clients notify the Department promptly if their circumstances change. In contrast, the system for identifying changes in the circumstances of Day Care Subsidy clients is weak and cumbersome. Clients are required to recomplete application forms several times a year. This is time-consuming for both staff and clients, and often fails to identify changes. When this happens, incorrect benefits are paid.

When incorrect benefits are paid, cost sharing with the federal government can be affected. Day care subsidies for parents who are also Supports for Independence clients are cost-shared 50% with the federal government. For this reason, when parents apply for day care subsidy, the Department checks to see whether they are receiving benefits under the Supports for Independence Program. After that, however, their Supports for Independence status is rarely checked. Hence, opportunities to cost-share day care subsidy costs can be missed if the parent becomes eligible for Supports for Independence benefits after applying for day care subsidy.

The Supports for Independence and Day Care Subsidy information systems need to compare data regularly to identify cost-sharing opportunities.

Contracted agencies - allocating funding to regions

It is recommended that the Department of Family and Social Services improve the way that funding is allocated to regions by basing such allocations on the current service needs within the regions.

Each year, the Department allocates funding to its six regions based on historical precedent rather than up-to-date information about service needs within the regions. The regions then contract with social agencies for bed spaces and services to persons with disabilities. During 1993-94, 160 agencies received $72 million in contract funding. While there is no shortage of clients requiring services in any of the regions, without up-to-date regional

information of the levels of services required, funding may not go to the regions where those services are most needed.

Canada Assistance Plan - Child Welfare Program costs

It is recommended that the Department of Family and Social Services give more consideration to cost-sharing implications when designing or changing program delivery mechanisms and information systems.

The Department is losing opportunities for cost sharing child welfare costs because it lacks some of the information needed to make claims.

In his 1992-93 annual report (page 116), the Auditor General stated that the Department needed to finalize cost-sharing claims for prior years' child welfare costs more promptly. As well, the Province was foregoing cost-sharing opportunities because the costs of providing certain eligible services to clients in need could not be identified on a child-specific basis. Where these services are delivered by agencies that the Department funds, systems are not in place to provide the required information. As a result, cost-sharing revenue totalling approximately $5 million has been foregone. The Auditor General was informed, however, that a computer system capable of capturing the needed information was to be developed by 1994-95.

I have since been informed that development of the computer system is on hold pending the release of a report on child welfare reform by the Commissioner of Services for Children. This report could result in changes to the program that could affect the cost-shareability of expenditures. However, unless program changes are made with due regard for Canada Assistance Plan criteria, further cost-sharing opportunities could be foregone. The Department should consider these criteria and, if necessary, complete negotiations with the federal government prior to implementing program changes.

Assured Income for the Severely Handicapped, cost sharing shelter costs

In his 1991-92 and 1992-93 annual reports (page 106), the Auditor General reported that the Department was underclaiming amounts from the federal government because client assets and living arrangements were not being coded properly for cost sharing. The Auditor General also reported that the Department was awaiting a decision by the federal government on whether past underclaims in the $2.3 to $3.5 million range will be cost-shared.

The Department is now conducting a study of all Assured Income for the Severely Handicapped clients to obtain better information about their shelter or living arrangements. Once this is complete, client files will be updated and staff will be provided guidance and

training to ensure that the correct information is obtained in future. I will continue to examine the Department's progress.

Canada Assistance Plan funding arrangements for Treaty Indians

In his 1992-93 annual report (page 117), the Auditor General suggested that the Department could improve the accuracy of claims for sharing costs incurred on services to Treaty Indians by obtaining better information on the residency status of Treaty Indian clients.

I am informed that the Department has since made system changes in all major program areas to allow for the proper identification and recording of Band/Treaty numbers and Reserve status for its Treaty Indian clients. I will continue to examine progress on this matter.

Department of Federal and Intergovernmental Affairs
year ended March 31, 1994

There were no matters reported to management at the end of this year's annual financial audit.

Department of Health
year ended March 31, 1994

Guidance to reader

In 1993-94, health was the largest category of Provincial expenditure, amounting to $4.2 billion or 26% of consolidated expenditure.

During this reporting period, a major restructuring in the healthcare system occurred. Regional health authorities and a Provincial Mental Health Board were established. Significant reductions in healthcare funding are being made. New planning and administrative systems are being developed at the departmental and regional level.

Members of the Legislative Assembly and the public need performance information which relates costs, health outputs and effects. For this reason, the main thrust of our recommendations in last year's report was that health programs need to be defined in a way that is useful to measuring performance. We reported that improvements to information systems were required to capture the cost of healthcare inputs and outputs. Specifically, the recommendations contained three messages:

- First, more effort is needed to change existing reporting from focusing on resources used, to focusing on performance in terms of outputs and effects. The appropriate autonomy of service providers and agencies to make service delivery decisions does not reduce, rather, it increases the need to be accountable for the efficient use of public funds.

- Second, the Department of Health needs to determine if the funds its provides have been used wisely. The Department needs to assess whether a reallocation of funds could produce more effective results.

- Third, the Department of Health must concentrate on collecting and reporting the information that is needed to permit evaluation of costs and achievements.

I believe that the thrust of the recommendations continues to be valid. However, I am concerned that due to the focus on restructuring, the need to provide suitable performance information may not receive the attention it deserves. The comments and recommendations which follow are intended to assist in improving the overall effectiveness of the healthcare system.

My recommendations to the existing hospital boards relate to improving the costing of health services and the procedures for

contracting services. As these matters need to be dealt with in the restructured system, they are being reported even though the hospital boards are to be wound up. The Department of Health needs to provide appropriate guidance to the regional health authorities on the issues raised.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to report the health services provided with Provincial and non-grant funds.

- A review of legislation establishing regional health authorities.

Action on previous recommendations

In the 1992-93 annual report, from pages 123 to 143, recommendations were made on:

- reporting the costs of healthcare programs and services
- defining hospital programs
- measuring hospital program costs
- reliability of hospital performance information
- capital asset consumption as a component of program cost
- underutilized and surplus capital assets at hospitals
- grants for specific programs, and
- hospitals' non-grant revenues

The Department has accepted these recommendations and has indicated that action will be taken. However, the major restructuring of the healthcare system is a priority and the recommendations will be implemented in the context of a restructured system which is not yet complete. My staff will continue to examine the Department's progress in implementing the recommendations.

Public reporting

Recommendation No. 19

It is recommended that the Department of Health establish procedures to report publicly on the cost of the services funded by the Province and delivered by the regional health authorities.

The regional health authorities and the Provincial Mental Health Board established pursuant to the Regional Health Authorities Act are required to submit health plans and annual reports to the Minister of Health. The Act requires the annual reports to be tabled in the Legislative Assembly.

However, there is no requirement to produce a report that links the funds provided by the Province with the nature and cost of health services delivered by the health authorities. Members of the Legislative Assembly require such reporting to understand how the funds they provide are being used. MLAs and the public need information on the cost of specific health services, the efficacy of these services, and the health status of Albertans in terms of mortality rates and sickness-free years. Such reporting will, over time, improve the cost-effectiveness of the regional health authorities and the Provincial Mental Health Board.

Non-grant funds

It is recommended that the Department of Health encourage healthcare institutions to budget for the generation and use of non-grant funds.

Healthcare institutions generate revenues from patient accommodation charges, parking, gift stores, rentals, fund raising activities and interest on operating grants received from the Department. In general, these non-grant revenues may be used at the discretion of the healthcare institutions.

During the 1993-94 audits of Provincially owned hospitals and their foundations, it was observed that several healthcare institutions do not prepare annual budgets for all non-grant funds generated or used. Budgeting communicates management priorities and encourages the review of strategies to maximize revenues and minimize costs.

Some may argue that as these funds are not provided by the Province, there is no need to prepare fiscal plans. I disagree. I believe that planning and budgeting will increase the benefits obtained from non-grant funds without reducing regional or local autonomy.

Assets and liabilities

Recommendation No. 20

It is recommended that the Department of Health require that assets and liabilities transferred to regional health authorities be recorded at appropriate values and that any payments by regions to existing health boards for net assets acquired take into account government grants previously provided for these assets.

The Regional Health Authorities Act provides for the transfers of assets and liabilities of existing healthcare institutions to the regional health authorities. The Act requires Ministerial approval for these transfers.

The health regions will be accountable for the use of resources that are transferred to them. Therefore, assets and liabilities transferred must be properly valued so that performance can be measured. The Department should require assets and liabilities to be recorded at appropriate values even if transfers are made at nominal values.

Regions may enter into agreements to compensate existing health facility owners for the transfer of net assets. The Department needs to ensure that assets previously funded through government grants are not paid for again with public funds provided to the regions.

Some assets of existing health facilities may not be required by the regional health authorities under a less expensive health system. Some assets which are not Provincially owned may have been acquired with Provincial grants. The Department should provide guidance to the holders of any such property on the disposition of such property and how the sale proceeds should be returned to the Province.

Bill 20

I reviewed draft legislation (Bill 20) for the establishment of regional health authorities and provided recommendations to the Health Department on how accountability requirements could be improved in the legislation.

Due to the nature of regional health authorities, they are excluded from normal accountability provisions as specified in the Financial Administration Act.

I recommended to the Deputy Minister of Health that Bill 20 should require an annual financial plan from each regional health authority and that annual reports from regional health authorities should be provided to the Legislature. Some of the observations I made were incorporated in the Regional Health Authorities Act.

Health Care Insurance Fund
year ended March 31, 1994

Physician services agreement

In the 1992-93 annual report (page 140), it was recommended that in future physician service agreements, the Department of Health include provisions to deal with payments to physicians when service volumes do not match anticipated volumes.

It was reported that an amount of $14.3 million, recorded as a liability by the Department as at March 31, 1993, was contractually payable to physicians but was not supported by specific claims for medical services in 1992-93. During 1993-94, the Department entered into a revised agreement with the Alberta Medical

Association which dealt with amounts owing in excess of claims submitted by physicians. This action addresses my concern.

Other entities

A financial audit of the **Alberta Alcoholism and Drug Abuse Commission** for the year ended March 31, 1994, was also completed.

PROVINCIALLY OWNED HOSPITALS AND THEIR FOUNDATIONS

The Provincially owned hospitals and their related foundations operated under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals and University Hospitals Foundation Acts during 1993-94. The financial statements of these hospitals are not included in the Province's consolidated financial statements, but are included in Volume 4 of the Public Accounts.

As the Regional Health Authorities Act, most of which was proclaimed in force June 24, 1994, provides for Provincially owned hospital boards to be wound up, audits of the hospital boards referred to in this section may no longer be required beyond March 31, 1995.

The Regional Health Authorities Act requires that unless the Minister appoints the Auditor General as the auditor for the region, the region must appoint its auditor. At present, I have not received a request to act as the auditor of any region.

Alberta Hospital Edmonton
year ended March 31, 1994

In addition to the annual financial audit, the following work was completed:

- A review of allegations of conflict of interest involving a Hospital employee.

- A review of the Hospital's conflict of interest guidelines.

- An examination of the systems used by the Hospital to purchase services.

Allegations of a conflict of interest involving a Hospital employee

I received a copy of a letter from the Health Care Employees Union of Alberta addressed to the Minister of Health alleging that the tendering process for housekeeping services at the Hospital had been "tainted" and that there had been "bias" in the award of the contract. The Union represented employees who were laid off as a result of the Hospital's decision to contract housekeeping services. The concern expressed in the letter was that the Hospital's former Manager of Housekeeping had been hired by the "company he recommended as the contractor to supply housekeeping services." The Hospital also requested that I investigate these allegations.

I reviewed the process and procedures used to select the contractor for housekeeping services. During this review, my staff received full cooperation from Hospital management and received access to all information requested.

I have concluded that there was no evidence that events relating to the selection of a contractor were significantly influenced as a result of any conflict of interest. However, I believe that the process used to acquire contracted services and the Hospital's conflict of interest policies need improvement.

My conclusion is based on the fact that the Manager was one member in a group of six which was responsible for developing selection criteria and recommending a bidder. The executive committee and the Hospital's Board of management were responsible for making the selection decision. The Manager was not a member of the executive committee or the Board. Furthermore, the executive committee and Board have reviewed the transaction and have concluded that the selection of the contractor was not influenced by the Manager.

Conflict of interest guidelines

It is recommended that the Alberta Hospital Edmonton improve its conflict of interest guidelines.

A review of the Hospital's *Conduct and Ethics Policy* dealing with conflict of interest matters identified the following deficiencies:

- it does not define related parties. The guidelines should specify who are regarded as related parties, including an employee's immediate family, relatives, business associates, and companies in which the employee or a related party has significant economic or other significant interest.

- it does not provide guidance to employees on the action they need to follow when faced with transacting hospital business with a related party.

- it does not provide guidance on the types of transactions which could lead to a conflict of interest. Certain transactions, such as awarding of contracts for the purchase of goods or services or recruitment of consultants, are more likely to create conflicts of interest.

- it does not provide guidance to employees seeking employment with businesses that conduct or expect to conduct business with the Hospital.

- it does not provide guidance to employees as to when they should disclose their business interests and related parties.

Conflict of interest guidelines should seek to protect the interests of the employer while avoiding unnecessary hardships and restrictions for the employees.

In reviewing the award of the housekeeping contract, discussed above, I noted that the Hospital provided additional guidance to the selection committee. The guidance covered issues such as confidentiality of information and the need for members to be, and to be seen to be, above reproach.

Since the Hospital will be amalgamated into a Provincial Mental Health Board, my recommendation should be reviewed by the Department of Health and the need to establish appropriate conflict of interest guidelines should be communicated to entities established under the Regional Health Authorities Act. I have also recommended that the Public Service Commissioner update the *Code of Conduct and Ethics for the Public Service of Alberta* to provide additional guidance in potential conflict of interest situations.

Systems used to purchase services

It is recommended that Alberta Hospital Edmonton improve its system for acquiring contracted services.

The Hospital contracted for the purchase of housekeeping services during the year with the objective of realizing significant savings. The decision is expected to result in savings of approximately $1 million over two years.

A review of the process used to select the housekeeping services contractor highlighted the following weaknesses.

There was inadequate evidence that the additional benefits offered by the selected contractor exceeded the benefits that could have been realized from accepting a lower bidder. For example, a lower bid received by the Hospital may have resulted in additional savings of $365,000 over two years. This bid met the Hospital's criteria for contractor selection, but did not offer additional features provided by the successful contractor. These features included certification of staff and the location of head office. The Hospital Board and management believe that the correct selection decision was made. However, the Hospital should have quantified the value to be received from the additional features offered.

The Hospital received bids for the contract, some of which were rejected as they failed to specify adequate detailed service levels. Acceptable service level criteria were not communicated to the

bidders. Had the Hospital provided the contractors with its existing detailed service levels, it may have been able to realize additional savings because the bidders would have had a better understanding of the Hospital's detailed requirements.

The selection and relative weighting of the criteria used to evaluate proposals could have been better. The selection committee's preliminary evaluation process graded each proposal on pre-established criteria which were given various weights. The criteria used, and the relative weighting allocated for each criteria could have been better designed. For instance, one criterion related to uniforms to be worn by the selected contractor's employees. This criterion was allocated a weight of 20 points and the weighting was based on matters such as who purchased the employee's uniforms and who laundered these uniforms. In contrast, the criterion for detailed service levels was allocated only 30 points from a total of 220 points even though this was a much more significant requirement of the contract.

After the preliminary evaluation, the bidders, through presentations to the selection committee, provided additional information regarding their proposals. However, the committee did not update the weighting scores based on this additional information.

Children's Health Centre of Northern Alberta
year ended March 31, 1994

In addition to the annual financial audit, my staff examined the system used by the Children's Health Centre to allocate funds for approved paediatric services provided to eligible Albertans.

Paediatric services

It is recommended that the Children's Health Centre fund paediatric services with knowledge of the actual costs of the services.

On September 1, 1993, the Children's Health Centre (CHC) assumed responsibility for funding paediatric services in northern Alberta. The CHC allocates the funds for paediatric services to four hospitals in the Capital Health Authority area. The amount that CHC allocated to each hospital in September 1993 was based on the amount the Department of Health previously gave that hospital for paediatric services. When the Department subsequently reduced the funding provided to CHC, it, in turn, proportionately reduced the funds it allocated to the hospitals. CHC has made some additional adjustments to the funding of individual hospitals for transfers of services between the hospitals.

At present, CHC does not adjust funding to hospitals for actual patient volumes. Neither the CHC nor the hospitals have a clear idea of how much the services at each hospital cost and, therefore, whether the funding provided by CHC is more or less than required.

In order that CHC can make informed cost-effective funding allocation decisions, it is important that the actual costs of paediatric services at the four hospitals be determined.

Currently, CHC intends to fund hospitals in 1995-96 on the basis of actual patient volumes and negotiated prices for individual paediatric services.

It is expected that funding to CHC for paediatric services will in future be provided by the Capital Health Authority, which was recently established under the Regional Health Authorities Act. However, the substance of the above recommendation should still apply to funding of paediatric services.

University Hospitals Board
year ended March 31, 1994

In addition to the annual financial audit, my staff completed an examination of the system used by the University Hospitals Board to determine and report the cost of health services.

Cost of health services

Recommendation No. 21

It is recommended that the University Hospitals Board continue to improve the systems used to determine and report the cost of health services by accumulating patient costs by treatment rather than by the patient's most significant condition.

The Board's objective in developing its Patient Resource Consumption Profile system was to improve the economy and efficiency of service delivery through the use of better cost information. I understand that the system has been useful, particularly in identifying differences in physicians' clinical practices. However, the system is not achieving its full potential due to the way costs are grouped.

At present, the system links patient-specific costs to the most significant condition of the patient. The most significant condition determines the category that a patient's costs are coded to. The average per patient cost within a category is used for comparing costs by physician and with other hospitals' costs. However, costs by patient vary significantly within a category. The average cost

has little meaning if individual per patient costs vary widely, as they often do.

The highest patient cost often exceeds the lowest cost by more than 100%. Also, there are wide variations in the length of stay for patients reported under the same category. These variances can result from treating a patient's subsidiary condition as well as a main condition. Remember that all treatments provided to a patient are coded to one category. Also the way a condition is treated can vary depending on such factors as the patient's age, illness severity and a physician's clinical practices.

I believe the system should accumulate costs and record effects based on the treatments provided to a patient. The variance in per patient treatment costs should be less and therefore the average should be more meaningful. The resulting information on treatment costs and effects would enable the Board to determine the efficiency and effectiveness of particular treatments, thereby identifying improvements.

Since the Board will be amalgamated into a regional health authority, this recommendation should be reviewed by the Department of Health. The need for linking health services costs to treatments should be considered by all regional health authorities.

Other entities

My reports on the financial statements of the following contained reservations of opinion because the Foundations receive donation revenue which is not susceptible of complete audit verification:

<u>Year ended March 31, 1994</u>

Alberta Cancer Foundation
Children's Health Foundation of Northern Alberta
University Hospitals Foundation

Financial audits of the following were completed for the year ended March 31, 1994:

Alberta Cancer Board
Alberta Children's Provincial General Hospital
Alberta Family Life and Substance Abuse Foundation
Alberta Hospital Edmonton Foundation
Alberta Hospital Ponoka
Edmonton Region Health Facilities Planning Council
Foothills Provincial General Hospital
Glenrose Rehabilitation Hospital

Department of Justice
year ended March 31, 1994

Guidance to reader

The first recommendation focuses on defining services, and measuring and reporting the costs of providing those services. This recommendation is made with the belief that identifying and costing the services that departments provide is key to effective financial decision making.

The Department's business plan anticipates that the Public Trustee will provide efficiently managed estate administration services to the Alberta public. The second recommendation deals with the improvements required to meet this expectation.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used to administer the Correctional Services Division, and to determine and report the costs of the services it provides.

- An examination of the systems used by the Public Trustee to administer and safeguard assets.

Correctional Services Division - non-custodial services

It is recommended that the Correctional Services Division of the Department of Justice define and report the costs of non-custodial services in a way that improves cost comparisons and resourcing decisions.

There are currently no performance measures in the Division's business plan for reporting on the cost-effectiveness of non-custodial services. Non-custodial services mainly involve the supervision of offenders released into the community, the provision of information to the criminal justice system, and the development of rehabilitative programs. The 1994-95 budget for non-custodial services is approximately $30 million.

For custodial activities, on the other hand, the Division has performance measures that deal with cost-effectiveness. For example, the division generates per diem costs per prisoner and compares these costs with other jurisdictions and with prior year costs.

Without similar performance measures for non-custodial services, and better information about the nature and cost of these services, it is difficult to demonstrate that reasonable resources are being allocated to appropriate services. It is also difficult to support outsourcing decisions, and to compare costs with other jurisdictions.

Public Trustee - safeguarding and administering trust assets

It is recommended that the Office of the Public Trustee improve the methods and processes used to safeguard and administer trust assets.

The systems used by the Office of the Public Trustee do not provide assurance that trust assets are adequately safeguarded, and that the estates are administered effectively and efficiently.

The Public Trustee acts as trustee to dependant adults, administers the estates of some people who die without leaving a will, and acts as official guardian for children and missing persons. As at March 31, 1994, the Public Trustee was responsible for over 19,000 cases and approximately $270 million of trust assets.

The Public Trustee's Operational Audit division is mandated to play a major role in ensuring that cases are administered properly, and in identifying problems before they result in financial loss or embarrassment to the Public Trustee. It does this by reviewing a selection of case files each year to assess the quality of administration. These reviews, however, are not performed with a view to improving efficiency of trust administration. Administrative savings could be achieved by focusing on the operational risks inherent in certain types of trust assets and by identifying and analyzing the reasons for errors.

Both the planning and the reporting of the Operational Audit division's activities should be improved. There should be an annual plan for the division setting out the objectives to be achieved, defined where possible in measurable terms. The plan should describe the strategies to be used to achieve those objectives, including criteria for identifying risks, standards and approaches for addressing those risks, and a budget.

Better reporting should include a process for communicating to all estate administrators the results or lessons learned from reviewing case files. In addition, the division should report at least annually to the Public Trustee on the costs and results of its activities.

Motor Vehicle Accident Claims Fund
year ended March 31, 1994

In his 1992-93 report (page 150), the Auditor General recommended that the Department use the information available on potential judgements and claims against the Motor Vehicle Accident Claims Fund to forecast future claims and to budget the Fund's future revenue requirements.

Since then, the Fund's assets and activities have been assumed by the Department of Justice. I am pleased to report that the Department has begun to forecast future payments.

Department of Labour
year ended March 31, 1994

In addition to the annual financial audit, my staff examined the systems used to administer and promote compliance with the Employment Standards Code.

Costing of services

It is recommended that the Regional Services Branch of the Department of Labour establish a system for costing employment standard services as a basis for assessing the reasonableness of costs, and measuring and reporting on performance.

The Regional Services Branch administers and promotes compliance with the Province's Employment Standards Code. A major part of the Branch's budget is consumed in investigating claims that arise when employers and employees are unable to resolve employment-related differences. As there is considerable demand for these services, the Branch must understand and control its operating costs to ensure efficiency. However, most of the available cost and operating information is too general for this purpose.

The Branch currently knows the overall cost of providing employment standards services and the amount of time each claim is outstanding. There is no reliable information, however, on the time spent investigating claims or types of claims, or the cost of that time and related overheads. This type of information would help the Branch understand why claims are taking longer to resolve than they were a few years ago. It could also be used to establish cost standards for types of claims, and to determine the cost implications and effects of management decisions. Reliable information on the cost of services provided will also be needed should the Branch move to charging fees to recover the costs of administering the Code.

Other entity

A financial audit was also completed of the **Joint Standards Directorate** for the year ended March 31, 1994.

Legislative Assembly Office
year ended March 31, 1994

None of the matters reported to management at the conclusion of the annual financial audit were selected for inclusion in this report.

Other entities

The financial transactions for the year ended March 31, 1994 of the following are included in the General Revenue Fund:

Office of the Auditor General
Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Ombudsman

The financial statement of the Office of the Auditor General for the year ended March 31, 1994, was audited by a firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statement is published in section 5 of Volume 2 of the Public Accounts of the Province.

Department of Municipal Affairs
year ended March 31, 1994

Guidance to reader

Alberta Registries has been established as a division of the Department of Municipal Affairs to consolidate the administration of Motor Vehicles Licensing and Registry, Land Titles Registry, Corporate Registry, Personal Property Security Registry and Vital Statistics Registry.

Alberta Registries is making significant changes to the way the government provides registry services by privatizing service delivery, developing new computer systems, outsourcing the majority of its computer services area, and introducing new products and services. Private agents now access the registry databases and charge customers for providing registration and search services. These services were previously provided by public sector employees at government issuing offices.

The funding for Alberta Registries will decrease significantly over the next three years. Funding for the 1996-97 year is projected at $41.4 million, a decrease of 21% from 1993-94.

The recommendation that follows is designed to improve the cost-effectiveness of registry services.

Scope of audit work

In addition to the annual financial audit, my staff completed an examination of the systems used by Alberta Registries to assess the cost-effectiveness of its services.

Costing of services

> **It is recommended that Alberta Registries determine the net revenue provided by each of its services.**

Alberta Registries does not determine the full cost of each of its individual services. Without adequate information on these costs, management is not able to determine the effect of pricing decisions on the net revenue contribution from each service. Also, cost information would be useful in determining whether the resources to supply the service are used in cost-effective manner.

The present Alberta Registries accounting system does not allocate to each service:

- direct costs, such as salaries and computer charges;

- indirect administrative and overhead costs incurred by Alberta Registries, and by the Department; and

- accommodation and other services provided by the Department of Public Works, Supply and Services.

Computer resources

In 1992-93, the Office examined the systems used to manage the computer resources in the Motor Vehicles Division of the Department of Justice. Deficiencies were observed in the annual planning process, the assessment of computer charges, and the analysis of the cost-effectiveness of systems development projects. In his 1992-93 annual report (page 147), the Auditor General recommended that the Department of Justice improve the systems and procedures used to monitor and assess the costs of computer staff and other computer resources.

In the period since the last annual report, the Motor Licensing Registry has been transferred to Alberta Registries. Alberta Registries is currently outsourcing its computer operation and intends to reduce its staff and purchase computer services. In my view, the previous systems and procedures are not applicable to the changed operations. As a result, I am not repeating my recommendation.

Alberta Mortgage and Housing Corporation
year ended March 31, 1994

Upon proclamation of the Alberta Housing Act effective July 1, 1994, the Corporation changed its name to the Alberta Social Housing Corporation.

In addition to the annual financial audit, my staff completed the following work:

- An examination of the systems used by the Corporation to control the cost of operating social housing projects managed by agents.
- Audits of 1993-94 cost-sharing claims under the National Housing Act (Canada).
- A financial audit of the subsidiary corporation, Municipal Affairs - Sales Ltd., for the year ended March 31, 1994.

Property tax assessments

It is recommended that the Alberta Social Housing Corporation verify that the property taxes paid are based on property values appropriate for property tax purposes.

The Corporation administers $1.1 billion of housing, real estate and land. In some cases, the property values used to determine the

property tax assessments are substantially in excess of appraised market values. For example, two real estate properties were valued for property tax purposes at $13.4 million and $63.9 million. However, their appraised market values were $9.5 million and $56.7 million respectively. The Corporation has not investigated the differences between assessment values and market values.

In my view, a review by the Corporation of the assessment values for all properties could lead to a substantial reduction in the property taxes payable.

Land valuation

It is recommended that the Alberta Social Housing Corporation determine the net realizable value of its larger land holdings annually.

At March 31, 1994, the Corporation prepared draft financial statements which showed land valued at $101.5 million net of allowances and writedowns amounting to $74.3 million.

The audit showed that the Corporation is not properly reassessing the value of its land holdings. As a result, the recorded realizable value was reduced from $101.5 million to $68.5 million.

Social housing projects

Recommendation No. 22

It is recommended that the Alberta Social Housing Corporation improve the systems used to control the operating costs of its social housing properties managed by agents.

The Corporation could save substantial funds by making sure that its managing agents operate social housing properties at industry cost levels.

The Corporation owns 30,000 housing units to provide social housing for senior citizens and for families in need. The units are located throughout the Province and 23,000 of these are operated for the Corporation by 400 managing agents. Each year, the Corporation sends the managing agents a set of budget forms which include a chart of accounts and a definition of the costs to be included in each account. Prior to the commencement of each fiscal year, the managing agents submit their proposed operating budgets to the Corporation for approval.

Budgets approved by the Corporation are based on actual historical costs. Cost standards have not been set for budgeting purposes. The establishment of cost standards would enable the Corporation to query variations between the proposed budgets and its cost

standards, prior to approving the budgets. Actual operating, maintenance and general administration costs for these housing units are higher than comparable costs for the industry. For example, on average, the costs for all housing units are approximately $30 (30%) per unit per month more than comparable industry costs.

Further, the Corporation's controls are directed at the housing project total costs and not at individual expenditure components. By focusing on total costs the Corporation may encourage managing agents to offset increases in their own general administration costs by cutting back on maintenance and other direct housing project expenditures. Instances were observed where approved budgets contained increases in administration costs which were offset by reductions in maintenance costs.

It is recognized that arrangements with managing agents are to be revised under the provisions of the Alberta Housing Act and the Management Body Operation and Administration Regulation. Under these arrangements, managing agents will be replaced by a smaller number of "management bodies" with greater delegated powers. The Regulation provides for management bodies to prepare and submit three-year business plans with long and short-term building maintenance plans, and annual operating budgets.

In summary, an efficient way for the Corporation to determine if costs incurred by management bodies are reasonable would be to compare operating costs against appropriate benchmarks.

Other entities

Financial audits of the following were also completed:

Alberta Planning Fund - year ended March 31, 1994
Improvement Districts' Trust Account
- year ended December 31, 1993
Special Areas Trust Account - year ended December 31, 1993

Department of Public Works, Supply and Services
year ended March 31, 1994

Accommodation

Scope of work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to manage accommodation services for Provincial departments, agencies and corporations. The examination focused primarily on office space.

Guidance to reader

At March 31, 1994, the Department of Public Works, Supply and Services owned approximately 200 general purpose office buildings with a total usable area of 430,000 m^2. The Department also paid lease charges of approximately $80 million in 1993-94 for an additional 470,000 m^2 of usable office space in 320 buildings. Approximately 80% of leased space is in Edmonton and more than 10% is in Calgary. The remainder is located in various smaller centres throughout the Province.

The Department has completed a program of on-site inspections to obtain information on staff levels, for use in evaluating space requirements and utilization, and on vacant and under-utilized space. Information from the inspections is supplemented by ongoing communication with tenants.

The Department has developed a long-range accommodation plan to reduce net costs and improve space utilization. The basic strategy of the Department's plan is to relocate tenants as leases expire or surplus buildings are sold. Relocations are planned around a group of "core" sites of owned buildings and long-term lease commitments.

The following recommendations relate to accommodation requirements and charging tenants for the cost of accommodation services provided by the Department.

Cost of services provided

Recommendation No. 23

It is recommended that the Department of Public Works, Supply and Services determine the cost of the accommodation it provides. It is further recommended that the Department seek the legislative authority to charge tenants for the accommodation provided.

The Department does not accumulate cost information by tenant for lease charges, amortization, utilities, maintenance, or administration. By not determining the cost of the accommodation provided, the Department may miss opportunities to achieve savings.

The Department does not charge tenants for accommodation services. In many instances, the cost for these services would be significant. The benefits of charging tenants for accommodation services include improved accountability for total resources consumed, increased incentive to reduce space to minimize costs, and more accurate costing of tenants' programs.

Surplus office space

Recommendation No. 24

It is recommended that the Department of Public Works, Supply and Services improve its systems for determining the accommodation requirements of the government organizations it serves in order to reduce surplus space.

The Department lacks certain fundamental planning information including:

- the total amount of owned and leased space which is surplus to the government's needs, and

- the numbers and locations of government staff it will be responsible for accommodating over the next three years.

As a result, the Department is not able to identify all opportunities to reduce surplus space.

Currently, the Department is responsible for accommodating approximately 30,000 government staff including salary, wage and contract personnel. Based on the Department's standard density of 20 m^2/employee, the total space requirement is approximately 600,000 m^2. The current inventory of 900,000 m^2 could therefore be approximately 300,000 m^2 in excess of present requirements. It is estimated that this excess space represents lease costs of approximately $50 million/year. A review by my staff indicates substantial surplus space has existed for several years.

My staff estimates that overall government space requirements may decrease by 170,000 m^2 by March 31, 1997, due to lower staff levels and reduced space allotment standards.

The Department's long-range accommodation plan sets out specific relocation projects and lease terminations to achieve a reduction of 130,000 m^2 of space by March 31, 1997. This means that the total amount of surplus space could increase to 340,000 m^2 by March 31, 1997.

Potential for subleasing or sale

It is recommended that the Department of Public Works, Supply and Services consider subleasing or selling surplus space in order to reduce costs.

The Department's long-range accommodation plan does not include projects to sublease surplus space. As a result, the Department may not realize potential sublease revenue, sale proceeds and occupancy cost savings.

Management indicates that the demand for subleased office space is low at the present time. However, demand can be stimulated by offering attractive sublease rental rates and attractive locations. Although sublease rents may be low in many areas of the Province, sublease tenants can be expected to pay sufficient rent to allow recovery of a substantial portion of the government's share of building operating costs, which must be paid whether or not the space is occupied.

In some instances, office space is presently vacant and can be subleased without incurring relocation costs. Where staff must be relocated in order to convert underutilized space to vacant space, my Office estimates subleasing results in a net recovery to the Province where the term of the sublease exceeds two years. Approximately 75% of the Department's leased office space inventory has terms expiring after March 31, 1996. It is acknowledged that cost savings through subleasing must be weighed against the related costs of staff relocations. In some instances, relocation costs may be offset by operational benefits to tenants through reduced travel, communication and other costs.

The potential for cost recovery is significant. To illustrate, if half the total surplus space with lease terms over two years were subleased at rates equal to building operating costs, the savings would amount to approximately $8 million/year.

Telecommunications

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to measure and report on the cost-effectiveness of the telecommunications services it provides to the government. The examination focused primarily on long-distance telephone calls.

Guidance to reader

The government is increasingly turning to telecommunications for new and better ways of doing business. The Department of Public Works, Supply and Services has an overall responsibility for ensuring that telecommunications services are provided to the government in the most cost-effective manner. The role of the Department is to provide government-wide leadership and planning in the management and use of telecommunications services.

The Alberta Government Network (AGN) is a system of telephone lines for which line and equipment rental charges of approximately $15 million/year are incurred by the Department. AGN allows user departments and agencies to make long-distance calls within the Province without incurring toll charges. The network is supported by automated dialling codes in major centres and operator assistance in smaller communities.

The Regional Information Telephone Enquiries (RITE) system is a service which uses AGN to allow the public to access government offices throughout the Province at no charge to the caller by dialling "310-0000". The RITE system is operated by the Public Affairs Bureau at a cost to the Bureau of approximately $2.2 million/year.

Provincial departments and agencies pay the cost of their non-AGN long-distance calls. These charges are primarily for direct-dial and operator-assisted long-distance calls and "1-800" numbers provided for incoming calls. The Department of Public Works, Supply and Services has negotiated a government-wide discount on the cost of these calls with Alberta Government Telephones (AGT) and Edmonton Telephones. The cost to departments of these calls was approximately $5 million for the year ended March 31, 1994.

The following observations relate to the planning, utilization and costing of government long-distance telecommunications services.

Cost of services provided

It is recommended that the Department of Public Works, Supply and Services determine the full cost of the Alberta Government Network and charge users for this service.

The Department has not determined the costs of the services provided through AGN or determined a basis for charging users for these costs.

The Department needs to determine the full costs of AGN to assess the cost-effectiveness of various alternatives for long-distance services. This assessment of alternatives is particularly important at a time of increasing competition in the telecommunications industry as a result of technological advances, decreases in equipment costs, and reduced regulation. The following costs need to be added to the line and equipment rental charges of $15 million a year to arrive at the full cost of the service:

- the direct and indirect costs incurred by the Department, such as salaries, departmental administration and accommodation costs, and

- the costs of the RITE system incurred by Public Affairs Bureau relating to operator assistance in smaller communities and AGN support services.

The Department does not charge users for AGN services. As a result, the cost of these services is not included in the costs of government programs. Charging users for telecommunications services may also help to identify opportunities to reduce costs.

Long-distance charges

It is recommended that the Department of Public Works, Supply and Services help Provincial departments and agencies identify opportunities to reduce long-distance telephone charges.

Outgoing calls

A significant portion of the outgoing direct-dial and operator-assisted calls by Provincial departments and agencies could be placed through AGN. We estimate that approximately $1.2 million/year could be saved if the services of AGN were fully utilized.

Some users may be unfamiliar with the AGN system or unwilling to make the effort to use the system, preferring instead to place calls by direct-dialling or operator-assistance. This situation should be corrected through consultation with user departments and agencies so that appropriate instruction can be given to individual users.

The Department should determine the long-distance telephone needs of the users to assess whether the cost of expanding the number of locations served, service capacity to individual locations, and/or technological capabilities of AGN is cost-effective. At present, AGN service is not available in some locations in the Province, or is available in certain locations only during regular business hours. For example, my staff estimates that further savings could be achieved if all AGN centres were upgraded to provide 24-hour service, and call-forwarding features.

Incoming calls

The Department is not fully utilizing AGN for incoming long-distance telephone calls to Provincial departments and agencies, and as a result, increased charges are incurred.

Incoming calls consist primarily of "1-800" numbers established for the clients of particular government programs, where the department or agency providing the program pays long-distance charges from the caller's location to the government office receiving the call. The total cost of "1-800" lines paid by departments and agencies in 1993-94 was approximately $1 million.

For "1-800" lines handling a steady volume of in-Province calls over a period of several months or more, long-distance charges could be significantly reduced by routing the incoming call to the nearest AGN centre and forwarding the call toll-free on the network to the government office. The Department needs to consult with users to determine which "1-800" lines would be more cost-effective if AGN were used.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1994.

Department of Transportation and Utilities
year ended March 31, 1994

Guidance to reader

The Province has 13,500 kilometres of primary highways, over 15,000 kilometres of secondary highways and over 125,000 kilometres of local roads. For the primary highways, the Department is responsible for capital improvement, rehabilitation, maintenance and motor transport safety services. The Department also provides financial assistance for construction of secondary highways in rural areas and major highway extensions within city jurisdictions. The Department also supports utility services such as natural gas and electrical installations in rural areas.

The audit observations and recommendations that follow identify needed improvements to the systems used to rank construction projects and to record the Department's assets and liabilities.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Department to rank and approve construction projects.
- An examination of the systems used by the Department to identify and report environmental liabilities.
- An examination of conflict of interest guidelines and their application in the approval of construction contracts.

Construction project priorities

Recommendation No. 25

It is recommended that the Department of Transportation and Utilities improve its systems for ranking highway construction projects.

The Department's mission includes responsibility for developing, constructing and maintaining an integrated transportation system in Alberta to facilitate the safe and efficient movement of people and products and the economic development of the Province. This responsibility is fulfilled in part by roadway maintenance and construction projects. The 1993-94 budget for maintenance, rehabilitation and construction work was $319 million.

Over 400 projects are considered each year for construction and a system is needed that helps rank projects and document the basis for selection.

The Department prepares a draft plan for the following year's construction program based on its long-range plan and input from internal and external parties. This plan is matched against available funds. Lists of proposed projects are forwarded to the Minister for review and approval. Projects approved by the Minister proceed to request for tenders. Those projects not approved are reassessed by the Department and may be submitted in later periods for Ministerial approval.

The Department's system for ranking highway construction projects lacks:

- Province-wide criteria to rank construction projects;
- consistency in the criteria used to evaluate projects proposed for construction;
- a method of assigning weights to criteria for the purpose of selecting projects.

A review of projects included in the construction program showed that some appearing to be of greatest need were rejected while others appearing to be of lesser need were approved for construction:

- On February 4, 1993, Departmental staff submitted for Ministerial approval a list of 42 projects for tendering amounting to $77.1 million. All projects were described as "urgent" or "high priority for 1993 construction" and some of these projects received Ministerial approval for construction. The rational for this urgency and the relative priority of these projects was not documented. Subsequent to the approval for construction, a Departmental reassessment of these projects, completed on February 24, 1993, indicated that 19 of the projects on the list valued at $33.6 million, including nine projects approved by the Minister, were not of the greatest need. However, these nine projects, valued at $16.3 million, proceeded to construction.
- Of 35 projects contained in a 1990 Departmental report of projects considered a priority for safety reasons, only 4 had been incorporated into the construction program as of December 1993. While it is recognized that other criteria, apart from safety, enter into the determination of whether projects should proceed for construction, this example demonstrates the need to assign appropriate weights to criteria to ensure that all factors are appropriately weighed in assigning priority.

Environmental liabilities

It is recommended that the Department of Transportation and Utilities estimate the cost of restoration work required to comply with various environmental acts and report any liabilities that exist.

The Department undertakes several programs that will result in the requirement for restoration work. These include:

- reclamation of gravel pits. It is probable that liabilities relating to these will be significant.
- restoration work for underground petroleum storage tanks. To date, the Department has identified approximately 30 sites requiring restoration work at an estimated total cost of between $3 to $5 million.
- potential contamination on land purchased from private owners or land transferred from other government departments.

When these costs can be reasonably determined, generally accepted accounting principles require that liabilities be recorded. Costs that relate to assets still in use should be charged against income in a rational and systematic manner.

The Department will need to work in collaboration with the Department of Environmental Protection so that all environmental liabilities are assessed and appropriately reported in the Province's financial statements.

Gravel and other inventories

It is recommended that the Department of Transportation and Utilities identify and report the value of its gravel and other inventories.

The Department owns gravel amounting to approximately $40 million and an undetermined amount of construction materials. These inventories are expensed when they are purchased and are not disclosed in the Province's consolidated financial statements.

Disclosing the value of its inventories will help the Department to:

- move towards costing of projects on the basis of consumption of resources; and
- identify inventories which may be surplus to its requirements.

Commitments

It is recommended that the Department of Transportation and Utilities improve its procedures for determining its financial commitments.

Financial commitments represent obligations which will require financial resources in the future. Commitment information is required for proper financial reporting and planning.

The Department's commitments at March 31, 1994, amounted to approximately $225 million. The following significant errors were identified by my staff and corrected in the Province's consolidated financial statements:

- commitments of approximately $25 million for municipal water and wastewater grants and grants to towns and villages were not included.

- commitments in excess of $45 million for funding improvement districts' transportation needs were omitted.

- commitments were overstated by approximately $36 million by inclusion of amounts that had been paid and amounts that were not commitments.

Capital assets

It is recommended that the Department of Transportation and Utilities improve the accuracy and completeness of the reported value of its capital assets.

During 1993-94, the Department was required to value its capital assets. The Department reported capital assets with a net book value of approximately $4.4 billion at March 31, 1994, which represents 48% of total disclosed Provincial capital assets. As this was the first year in which capital assets were reported, a considerable amount of effort by Departmental staff was required to prepare this information.

The identification and valuation of capital assets may take a number of years to complete properly. The task is complicated by the nature of assets held by the Department and the decades over which these assets were acquired, mostly through construction activities. While the magnitude of the task is challenging, it is crucial to the measurement of resource consumption.

A review of the work performed by the Department to identify and value its capital assets showed that:

- capital assets incorrectly included an amount of $40 million.

- some capital assets with a value of $27 million were recorded twice.

- some capital assets belonging to the Department were not recorded.

Costs of rural gas distribution program

In the 1992-93 annual report (page 161), the Auditor General recommended that the Department determine the full cost of its rural gas distribution program. The Department is in the process of assessing the effectiveness of its rural gas program. My staff will review action taken as a result of this assessment.

Conflict of interest guidelines

At the request of the Department, I reviewed the system used to approve contracts by senior officials to determine if existing conflict of interest guidelines are being observed.

Conflict of interest guidelines for public employees provide guidance in situations where a conflict may arise between an employee's private interests and the employer's interests.

I received full access to all the information I required. My review did not disclose any evidence of any irregularities in the contract approval process or any evidence that the conflict of interest guidelines were not being observed.

Transportation Revolving Fund
year ended March 31, 1994

Use of a revolving fund

In the 1992-93 annual report (page 161), it was recommended that the Department determine whether the Transportation Revolving Fund met the Department's needs for the procurement of supplies and materials.

The Department is presently changing the Fund's role in the procurement of supplies and materials as its method of delivering services is changing. For example, recent Department initiatives to transfer responsibility for construction and maintenance of local roads to improvement districts and the further privatization of construction activities requiring contractors to supply construction materials will significantly impact the volume of construction materials and supplies held by the Fund.

The Department is also evaluating alternative means of maintaining the highway infrastructure which could have a further impact on materials and supplies held by the Fund.

I will continue to examine the Transportation Revolving Fund's role in the procurement of supplies and materials.

Alberta Resources Railway Corporation
year ended December 31, 1993

Reservation of opinion

The Auditor's Report on the financial statements of the Alberta Resources Railway Corporation for the year ended December 31, 1993, contained a reservation of opinion as follows:

"Under the terms of an Agreement between Canadian National Railway and the Corporation, Canadian National Railway is required to pay a tonnage rental to the Corporation based on the amount of revenue freight carried over the Corporation's railway. The Corporation relies on reports by Canadian National Railway as to the nature and amount of revenue freight to determine the tonnage rentals payable under the Agreement and has been satisfied that there is no economical means available to check the accuracy of such reports. Accordingly, my verification of tonnage rental revenue of $6,706,089 was limited to the amounts reported to the Corporation and I was not able to determine whether any adjustments might be necessary to tonnage rental revenue, excess of revenue over expenditure for the year, assets and liabilities."

Tonnage rental revenue represents a significant portion of the Corporation's revenue. This reservation of opinion was necessary because audit evidence to support the completeness of tonnage rental revenue was not available.

Other entities

A financial audit of the following was also completed for the year ended March 31, 1994:

Gas Alberta Operating Fund

Guidance to reader

The audit observations and recommendations that follow focus on three main areas.

The first area deals with the Province's overall financial reporting, usually referred to as "consolidated reporting". I believe that it is important that decision makers clearly understand the total assets, liabilities, revenues and expenditures of the Province. Therefore, recommendations to improve the Province's consolidated reporting are of primary concern. These recommendations are included under Treasury because the Department is responsible for the preparation of the consolidated reports.

The second area deals with a wide range of matters which also fall under the responsibility of the Treasury Department. The recommendations relate mainly to funds and systems administered by the Department and are made to improve the Department's effectiveness and reduce costs:

- One recommendation deals with the need to reassess revolving funds. Their elimination would save the administrative costs of maintaining the funds.
- A recommendation is made to deal with a growing unfunded liability in the Special Forces Pension Plan.
- A recommendation is made to enable a better assessment of the cost-effectiveness of the Alberta Royalty Tax Credit Program.
- Four recommendations deal with management of the Province's investments. Improved information about costs and performance will permit a better assessment of investment management. Better information about mortgages will allow the Department to manage these investments more effectively. I also believe there are opportunities to increase the investment services of the Department.
- A recommendation made last year is repeated regarding a review of the Alberta Heritage Savings Trust Fund to determine if its assets are being used in the most effective manner.

The third area relates to the Treasury Branches Deposits Fund. The recommendations are included here as the Provincial Treasurer is responsible for the administration of the Fund.

Timeliness Of Reporting

The government set June 30, 1994, as the target date for release of the 1993-94 consolidated financial statements. The Provincial Treasurer released the statements on June 23, 1994, fully two months earlier than the previous year. The Province now provides the earliest reporting in Canada. I congratulate the Treasury Department, and all departments and agencies, on their collective achievement in meeting this deadline.

Consolidated Budget

An examination of the form of the Budget '94 document was completed.

During 1993-94, the Treasury Department released Budget '93, Budget '93 Update, and Budget '94. The preparation of these budgets on a consolidated basis for the first time is a significant step forward. While significant progress has been made, I believe further improvements can be made to the budget.

Comparison with financial statements

It is recommended that the Treasury Department prepare the annual consolidated budget on the same basis as the consolidated financial statements.

The consolidated financial statements and the annual consolidated budget are not easy to compare.

The consolidated financial statements of the Province include most government entities. Approximately 80 entities are consolidated on a line-by-line basis and approximately 20 commercial enterprises are consolidated on the equity basis.

Budget '94 consolidated only the Province's three largest funds on a line-by-line basis. Other entities were included on the equity basis by bringing in only their projected operating surplus or deficit. As a result, it is difficult to compare the consolidated financial statements with the budget.

The government continues to work towards a full consolidated budget. I understand that the Province will be publishing a discussion paper for inclusion in the Budget '95 document outlining the effect of preparing the budget on the same basis as the consolidated financial statements.

Key economic assumptions

It is recommended that the Treasury Department disclose the estimated impact of variations when discussing key economic assumptions in the annual budget document.

The budget documents do not disclose the likely impact that variations in key economic assumptions will have on the annual operating result.

Key economic assumptions are significant to understanding certain revenues and expenditures in the consolidated budget. Examples include oil and gas prices, exchange rates and interest rates. The budget also includes a survey of external forecasts of key economic assumptions to assist in assessing the reasonableness of the assumptions used by the Province.

If the estimated impact of changes in the assumptions were stated in dollars in the budget document, it would be easier to assess the effects of variances. For example, the budget document could state that a $1 US increase in the West Texas Intermediate price per barrel of oil, from a base of $17 US per barrel, would increase the Province's annual non-renewable resource revenue by approximately $135 million.

Consolidated Financial Statements of the Province
year ended March 31, 1994

The Province's consolidated financial statements are published in Volume 1 of the Public Accounts which was released by the Provincial Treasurer on June 23, 1994. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1994. My report is reproduced on page 138 of this report.

The Treasury Department continues to make significant improvements to the consolidated financial statements. During 1993-94 personal income taxes were accounted for on an accrual rather than a cash basis. Further, there were significant additional disclosures in the notes to the financial statements on compliance with the Deficit Elimination Act, on the comparison of the budgeted revenue, expenditure and annual deficit with actual amounts, and on the estimated cost and amortization of capital assets.

In addition, Volume 2 of the Public Accounts contains information about salaries and benefits for employees of government departments, boards and agencies.

The following commentary discusses further improvements to the consolidated financial statements.

Revenue

Recommendation No. 26

It is recommended that the Treasury Department record all revenue in the consolidated and General Revenue Fund financial statements on an accrual basis.

Under the present accounting practice, certain revenue is recorded on a cash basis. In other words, it is recorded when cash is collected. Under the accrual basis, revenue would be recorded when the event that caused the revenue to be earned took place. The accrual basis is more accurate since revenue is allocated to the period in which it was earned.

In his 1992-93 annual report (page 26), the Auditor General recommended that all revenue in the consolidated and General Revenue Fund financial statements be recorded on an accrual basis. I am pleased to report personal income taxes were properly recorded on an accrual basis for the first time in the 1993-94 financial statements. However, corporate income taxes and some other revenues, such as motor vehicle and operator licences and energy rentals and fees, are still recorded on a cash basis.

I understand that accruing corporate tax revenue is under review and that accrual accounting will be applied when discussions are completed with the federal government about tax collection. With respect to the other revenues, the departments responsible for their collection are able to calculate the revenue on an accrual basis.

Guarantees and indemnities

It is recommended that losses arising from guarantees and indemnities be included in the consolidated and General Revenue Fund financial statements as expenditures of the departments which initiated the guarantees and indemnities.

Losses arising from guarantees and indemnities, which in 1993-94 amounted to approximately $46 million, are included in the Statement of Revenue and Expenditure as an expenditure described as valuation adjustments.

In last year's annual report (page 37), the Auditor General pointed out that valuation adjustments are not associated with a particular program or department. Including losses from guarantees and

indemnities with a department's other program costs would enable program decisions to be based on true costs.

The government accepted my recommendation in principle and indicated that additional methods of increasing departmental accountability will be reviewed. In addition to losses on guarantees and indemnities, the allocation to programs of all other costs included in valuation adjustments, such as losses arising from investments should be addressed during the review. I will continue to examine progress on this matter.

Unrecorded capital assets

In the 1992-93 annual report (page 25), it was recommended that the Treasury Department record as soon as practicable the cost and amortization of the Province's land, buildings, vehicles, and equipment, in the consolidated and General Revenue Fund financial statements.

This recommendation has been accepted by the government. The government intends to record and amortize the Province's capital assets in 1995-96.

The Province has made significant progress towards accounting for capital assets. The notes to the 1993-94 consolidated and General Revenue Fund financial statements disclose the estimated cost and amortization of capital assets.

Reporting entity

In his 1992-93 annual report (page 25), the Auditor General noted that the consolidated financial statements do not include the financial results, position and cash flows of Provincially owned universities, colleges and technical institutes and he suggested that these entities be consolidated. However, the Province's capital assets and the investment in these Provincially owned entities are somewhat interlinked in that the major part of the investment in these Provincially owned entities is represented by capital assets. In order for a proper consolidation of these entities to be done, the matter of capitalizing capital assets has to be resolved. As soon as capital assets are recognized in the consolidated financial statements, it would be sensible to consolidate these entities if, at that time, they are amortizing capital assets.

The Treasury Department agrees in principle with the suggestion and will consult with the organizations to achieve that objective. I will continue to examine progress and have informed the Treasury Department that I would be pleased to participate in discussions on this matter.

As a preliminary step, to provide disclosure of the financial impact of these entities, the Treasury Department has included the financial

statements of these entities in Volume 4 of the 1993-94 Public Accounts.

New actuarial valuations

In his 1992-93 annual report (page 28), the Auditor General recommended that new actuarial valuations be performed as at December 31, 1993, for pension plans to ensure that the Province's total liability for pensions and each Provincial agency's liability for pensions are based on current valuations.

The last actuarial valuations of the Local Authorities, Universities Academic, Special Forces, Public Service, Management Employees and Public Service Management (Closed Membership) plans were as at December 31, 1991. I understand that valuations are being obtained for the first three plans as at December 31, 1993, and will be obtained for the other plans as at the same date.

The Treasury Department had also previously obtained an actuarial valuation of the Members of the Legislative Assembly Pension Plan as at December 31, 1991. I understand that a valuation will be obtained for this Plan as at December 31, 1994.

It is important that the valuations be completed in time for the results to be reflected in the Province's consolidated financial statements for the year ended March 31, 1995.

Actuarial valuations, assumptions

In his 1992-93 annual report (page 29), the Auditor General recommended that the Treasury Department take the steps necessary to deal with the actuary's concerns, regarding the assumptions about future real rate of return and plan membership growth, in quantifying the Province's pension liability.

In preparing his actuarial valuations at December 1991 on the five major plans administered by the Province, the actuary was concerned about the need to develop and implement an investment policy designed to achieve a future real rate of return of at least 3.5% per annum. If the future real rate of return is less than expected, the pension funds' assets will be less than expected and the Province's liability will increase.

The government agreed with the recommendation and the Treasury Department is taking steps to deal with this concern. I understand that an investment policy plan has been prepared and is being reviewed before being forwarded for the approval of the Pension Boards which are now responsible for these pension plans.

Also, in preparing the 1991 valuations, the actuary was concerned that he had not performed sufficient analysis of the plans' membership growth rate, provided by the Treasury Department, to

enable him to determine if that assumption was appropriate. The validity of this assumption is critical. If the future growth rate is less than expected, then contributions from employees, a portion of which is for past service costs, will be less than expected. As a result, the unfunded liabilities for the Plans will not decrease as quickly as expected. This is particulary important for the Province in the case of the Special Forces plan because the Province has guaranteed the benefits payable.

As the government has agreed with the recommendation, I expect my concerns about growth rates will be dealt with in the upcoming valuations.

I will continue to examine progress on these matters.

Method of consolidation

The consolidated financial statements do not include the total assets, liabilities, revenues and expenditures and cash flow of the Province's commercial organizations. These organizations are consolidated on an equity basis.

In his 1992-93 annual report (page 25), the Auditor General suggested that when capital assets are recognized in the consolidated financial statements, it would be appropriate to consolidate commercial enterprises on a line-by-line basis rather than on an equity basis as at present. Under the equity basis, their assets and liabilities are shown as one net amount on the consolidated statement of assets, liabilities and net debt.

It is important that readers of the consolidated financial statements see the total assets and liabilities that comprise the Province's financial position, the total revenues and expenditures that comprise the Province's financial results and the total cash flow. The extent of government's responsibilities, risks, and expectations about the use of public resources can best be considered if a total consolidated picture is given to a reader of the financial statements.

For example, the Province controls the Treasury Branches Deposits Fund which has taken in significant deposits from customers, and made loans as a bank. I believe it is appropriate for the Province to include these activities, suitably segmented, in the consolidated financial statements. Treasury Branches has assets of about $8.2 billion, and liabilities of $8.3 billion. However, the consolidated balance sheet only records the net deficiency of approximately $100 million at March 1994. The assets and liabilities are not recorded. Also, the consolidated statement of revenues and expenditures does not show the $600 million in both revenues and expenditures of Treasury Branches.

Another example is The Workers' Compensation Board which has $2.2 billion in assets and about $2.5 billion in liabilities. However, the consolidated balance sheet only recorded a net deficiency of approximately $300 million. As with the previous example, the assets and liabilities are not recorded. Also, the consolidated statements did not show the Board's $800 million in revenues and $475 million in expenditures.

The Treasury Department has not accepted the suggestion made last year, firstly, because it does not comply with a recommended accounting standard of the Public Sector Accounting and Auditing Board (PSAAB) and, secondly, because consolidation on a line-by-line basis might distort the balance sheet. For example, the Treasury Department has indicated that the magnitude of the assets and liabilities of Treasury Branches would make the Province's consolidated financial statements look like a bank carrying out health and social programs.

On the Department's first concern, the accounting standard was established in 1988. I believe it took account of the prevailing practice that governments expensed capital asset additions rather than capitalizing and amortizing them. That situation is about to change in Alberta as the government has agreed to record the cost and amortization of capital assets. I understand that this will occur in 1995-96. I believe that in due course, as more governments change to amortizing capital assets, the PSAAB standard will need to be changed.

On the Department's second concern, since 1991, Canadian accounting standards have required non-government entities to consolidate the financial position, results and cash flow of all of the entities within a group of companies. Line-by-line consolidation is recommended even if the activities of individual companies are as diverse as, for example, property construction and a travel agency business. To help readers of those financial statements understand the diverse activities of the group and the different risks in each industry, information is provided on the operations and assets used in each significant business segment. This same approach could be used by the Province. The consolidated financial statements could provide summary information on Provincial activities such as banking (eg, Treasury Branches and North West Trust Company), insurance (eg, WCB and Alberta Hail and Crop Insurance Corporation) and lending (eg, Alberta Agricultural Development Corporation, Alberta Opportunity Company and Alberta Municipal Financing Corporation).

Alternatively, there are other bases on which to present segmented information. For example, information could also be segmented by ministry.

Although not recommended by PSAAB, I believe that the Treasury Department should be working towards a full line-by-line consolidation with appropriate disclosure of segmented information. I have informed the Treasury Department that I would be pleased to help progress this matter.

General Revenue Fund
year ended March 31, 1994

The financial statements of the General Revenue Fund report the revenues and expenditures of the 17 government departments and the Legislative Assembly, including its Legislative Officers, together with the financial assets and liabilities they administer. Issues affecting government departments are reported under the name of the department.

I was able to report without reservation on the General Revenue Fund financial statements for the year ended March 31, 1994.

Crown-Controlled Organizations

Details of Crown-controlled organizations are disclosed in Volume 3, section 3, of the 1993-94 Public Accounts.

Section 16 of the Auditor General Act provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

All of the information which I required to properly fulfil my obligations concerning these organizations has been made available to me.

Treasury Department
year ended March 31, 1994

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Investment Management Division to measure and report on investment costs and performance.

Revolving funds

Recommendation No. 27

It is recommended that the Treasury Department reassess the need for revolving funds.

Revolving funds are not working as intended and are not necessary. I believe that the government should be able to fully cost its programs and services without the expense of operating revolving funds.

Revolving funds are established within departments to provide services or to sell materials to other branches within the department, to other departments or to the public. Examples are the promotion of tourism and the provision of learning resources and supplies. The economic intention is that revolving funds will operate on a break-even basis. This requires all relevant costs to be identified and then passed on to the users of the services.

None of the eleven revolving funds in existence at March 1994 contained all of their operating costs. All of their financial statements disclose that certain administrative costs such as accommodation are not included in their costs, but are instead recorded in the General Revenue Fund. Some revolving funds do not include costs for pensions, vacation pay and disability benefits. As a result, the cost of outputs of the revolving funds is understated and, in turn, users are paying less than they should for the services they receive.

Reviewing the need for revolving funds would be consistent with the government's acceptance of the recommendation of the Alberta Financial Review Commission to ensure that funds fill a role in achieving Provincial goals.

Special Forces pension plan

Recommendation No. 28

It is recommended that the Province and the Special Forces Pension Board prepare a plan to show how the growth in the unfunded liability for the Special Forces pension plan will be addressed.

Under present funding arrangements, the unfunded liability of the Special Forces pension plan is estimated to grow from $129 million at March 1994 to $2,700 million at March 2037.

All of the major Provincially administered pension plans, except the Special Forces pension plan, have funding arrangements to eliminate the unfunded liability by the year 2041. Under existing funding arrangements, the unfunded liability for the Special Forces plan will

continue to increase because interest which is accumulating on the liability is not being fully funded.

The Province's actuary reported in May 1993 that the unfunded liability of the Special Forces plan for pre-1994 service will increase to about $2,700 million over the next 40 years, and will continue to increase thereafter.

By acting early, the Province and the Special Forces Pension Board can deal with the unfunded liability before it becomes excessively large and therefore more difficult to correct.

The Deficit Elimination Act requires that the Provincial budget be balanced by 1996-97. However, the Act excludes pension provisions from this target because funding deficits for the various plans are to be corrected over 40 to 50 years. Under present funding arrangements, this will not be the case for the Special Forces pension plan.

Alberta Royalty Tax Credit Program

Recommendation No. 29

It is recommended that in keeping with the government's initiatives on accountability the goal for the Alberta Royalty Tax Credit Program be restated to include the expected results and related performance measures.

The government has no basis for assessing and reporting on the effectiveness of the Program.

The Alberta Royalty Tax Credit Program refunds a portion of the Alberta Crown Royalties received by the Province. In 1993-94, the amount refunded was $262 million.

In response to a similar recommendation in the previous annual report (page 32), I was advised by the Treasury Department that the goal for the program is "to reduce royalty payable on active exploration and production in Alberta."

In essence, the goal focuses on the reduction of royalty. The amount of reduction is measurable, however, the expected results from reduced royalty are not evident from the goal.

The government has indicated that it is focusing on results and the use of performance measures. Therefore, the goal for the Alberta Royalty Tax Credit Program needs to be defined in terms of the results expected and the performance measures that will be used. In this way, the success of the Program can be assessed.

Investment performance measurement

Recommendation No. 30

It is recommended that the Treasury Department include additional performance measurement criteria in its investment objectives and provide additional performance information on the investments which it manages.

The Treasury Department manages the investments of five major pension plans, The Workers' Compensation Board, and various funds. In total, the market value of the investments managed for these entities is approximately $20 billion. These entities need appropriate information to assess how well the investments are being managed.

The Department's stated objective for the pension plans and various funds is "to maximize return over a four year cycle." Success in achieving the objective is measured relative to the results achieved by a group of external investment organizations. Specifically, the Department's goal is to be in the second quartile, that is achieve results which are better than 50% of the group of external organizations used for the comparison. While this provides the Department with a measurable target, there are inherent difficulties with these comparisons. The data submitted by the external organizations may be based on different investment objectives and accounting policies.

Additional performance criteria should be established in relation to actual market performance. For example, the expected results from investment activities in Canadian equities could be established relative to the actual movement in the TSE 300. This is an index which is indicative of the results of the Canadian equities market. Similar indices exist for other major investment categories. In order to ensure that the performance criteria established are relevant for comparison purposes, it may be necessary to modify a commonly used index.

Market indices have been included as performance criteria for The Workers' Compensation Board but not for the other entities whose investments are managed by the Department.

Reports on investment results do not clearly explain the reasons for variances between actual performance and performance criteria. In addition, variances are not expressed in monetary terms which makes it difficult to assess the financial significance of variances. In the absence of information analyzing investment performance from the Department, The Workers' Compensation Board has developed its own system to evaluate the financial significance of performance variances.

The investment community, through the Association for Investment Management and Research (AIMR), has established performance presentation standards. The standards cover matters such as calculating returns, valuing investments and reporting on investment performance.

The Department is moving to conform to these standards, however some departures were noted. For example, the returns reported on individual real estate properties were based on cash yield and did not include unrealized losses as I believe the standards also require. The Department should continue to work towards compliance with the AIMR standards.

Cost of investment management

It is recommended that the Treasury Department determine the cost of its investment services.

The Department's policy is to bill its clients for the cost of investment services. However, the Department does not determine the full cost of these services. As a result, bills to clients for investment services do not include all of the Department's costs.

Full investment costs comprise:

- the direct costs of the Department's Investment Management Division,
- security custodial fees, settlements of purchases and sales of securities, the costs of record keeping systems, and general overhead costs of the Department, and
- private sector investment management fees.

In addition, private sector manager costs are netted against revenue earned and are not included in billings. Therefore, users are unaware of the true costs of the investment services provided by the Department and private sector managers.

Full cost information will also allow the Department and its clients to compare its costs with those of other similar organizations. Such comparisons may reveal opportunities for cost savings and are useful when considering alternative delivery methods.

Mortgage investments

Recommendation No. 31

It is recommended that the Treasury Department obtain current information to manage and value mortgage investments.

The Department invests in mortgages secured by income-producing properties. Of the total portfolio of mortgage investments amounting to $425 million, approximately half are NHA insured and represent low risk. The balance, however, are not NHA insured and are higher risk investments. The mortgages range in value from approximately $300,000 to $45,000,000. Income is earned from both the interest on the mortgage as well as participation in annual rental income earned on the mortgaged property.

A review of mortgage files indicated that in many cases current data on properties is not maintained. In some files, the most recent financial statements were over one year old, and many files did not contain any past or projected cash flows from the properties. Other files reviewed had no current information although concerns had been raised in the past regarding anticipated negative cash flows. Poor cash flows affect the rate of return and the underlying value of the security.

Properties must be closely monitored to minimize the risk of loss during periods of declining cash flows. Current appraisals, property financial statements, cash flow projections and rent rolls should be maintained on each individual property. Without this information, the Department cannot properly manage and value the portfolio of mortgage investments.

Investment management services

It is recommended that the Treasury Department identify Provincial organizations that could benefit from investment management services.

Some Provincial organizations that manage funds are not maximizing their investment returns at an acceptable risk. This matter was reported in the 1992-93 annual report (page 36).

A number of Provincial organizations lack investment expertise. These organizations could increase their investment returns if they used investment management expertise of the type available within the Treasury Department.

The government accepted the recommendation but to date the Department has not been able to fully implement it. The initial step taken was to identify depositors in the Consolidated Cash Investment Trust Fund who may benefit from improved investment

management services. The Department now needs to work with these depositors to confirm that improved services are needed, to determine the best way to improve the services and to decide who should provide the services.

Pensions Administration

For the past few years, the Audit Office has been concerned that information in the Contributor System is not up-to-date and is incorrect. This information is used to calculate pension payments and the Province's actuarial liability for pensions.

In an attempt to keep the information up-to-date and correct, the Treasury Department requires 570 employer organizations to provide the Department with audited annual returns specifying each contributor's pensionable salary and period of service. These audited returns need to be received and reviewed punctually.

In his last three annual reports (1992-93 page 33), the Auditor General reported that there was a significant delay in obtaining returns from some employers. Since his last report, Pensions Administration developed a plan to improve procedures to minimize the delay in receiving annual audited returns. As a result, during 1993-94, reminders were sent to delinquent employers for the Local Authorities and Special Forces plans who comprise about 90% of the total number of employer organizations. In addition, notices were sent before the July 1994 due date to remind Local Authorities employers about the upcoming deadline for annual audited returns. Further, a new regulation was put into effect permitting Pensions Administration to order that an audit be conducted at the expense of the employer if an annual audited return is not sent.

Employers are incurring significant costs to provide audited returns. I will continue to examine this area to ensure that evidence to support the accuracy of the pension data is obtained in a cost-effective manner.

Alberta Heritage Savings Trust Fund
year ended March 31, 1994

Review of the Fund

Recommendation No. 32

It is recommended that the Treasury Department initiate a review of the Province maintaining both investments and debt, in order to determine whether assets, including Heritage Fund assets, are being used in the most effective manner in relation to the Province's overall financial objectives.

The Heritage Fund was originally established to save for the future, to strengthen and diversify Alberta's economy and to improve the quality of life in Alberta. Economic conditions have changed significantly since its inception in 1976 and the Province's debt now exceeds the total amount of the assets held by the Fund. What is needed, is an analysis of the costs and benefits of the Province maintaining both investments and debt. This analysis should include the Heritage Fund as a part of the whole.

The need for a review was reported in both the 1991-92 and 1992-93 annual reports of the Auditor General. The government accepted the recommendation following the 1991-92 annual report. The review, however, has not commenced.

Treasury Branches Deposits Fund
year ended March 31, 1994

In addition to the annual financial audit, the following work was completed:

- An examination of the processes used to maximize recovery on delinquent loans.
- A further examination of the systems used to measure the profits attributable to branches, customers and products.
- A follow-up examination of the processes used to develop automated systems.

Recovery of delinquent loans

It is recommended that Alberta Treasury Branches consider the net present values of future cash flows when selecting the optimum method for recovery of delinquent loans.

When Alberta Treasury Branches forecloses on delinquent loans, it obtains title to the assets securing the loans. The assets are usually then sold, and the proceeds are applied to the loan balance and any outstanding interest due. Sometimes the assets involved are revenue-generating properties such as hotels or apartment buildings. Depending on the market for such assets and their condition, it is sometimes better to retain and/or upgrade them before selling them.

When deciding on the best method and time to dispose of revenue-generating properties, Alberta Treasury Branches does not convert anticipated future cash flows to their net present values. Net present value permits the evaluation of alternative strategies by reducing the differing future cash flows in the alternatives to a single net value at one point in time, the present. The principle behind present values

is that to sell something say a year from now for $1.10 would be equivalent to selling it now for $1, at a 10% rate of interest. Reducing future cash values to a single present value permits a valid comparison of various possible courses of action.

Alberta Treasury Branches could maximize the recovery of amounts and interest outstanding on delinquent loans if it supported disposal decisions by calculating the net present value of expected future cash flows. For example, it may be better to operate a hotel or apartment building for a while in the expectation that property values will rise, or to renovate the property to enhance future disposal value. Such decisions would be better supported if the net present value of each option was calculated and considered.

Alberta Treasury Branches has agreed with this recommendation.

Accounting for non-accrual loans

It is recommended that Alberta Treasury Branches improve its procedures for identifying loans that should be accounted for as non-accrual.

The audit identified a number of loans that were not classified as non-accrual, even though payments were more than 180 days past due. Adjustments totalling $6.8 million were needed to remove from revenue uncollected interest relating to these loans.

These adjustments had little effect on Alberta Treasury Branches recorded net income because provisions had been established against most of the recorded interest. Left unadjusted, however, this would have represented a significant departure from Alberta Treasury Branches' published accounting policy that "A loan ..... without exception, is classified as non-accrual when interest or principal is past due 180 days." The purpose of the policy is to help ensure that reported revenue is not overstated. Although reported revenue can be reduced by means of a provision to arrive at the correct net result, revenue is in itself an indicator of performance. Therefore, it should include only that revenue for which ultimate collection is reasonably assured.

Management has undertaken to ensure that all loans past due more than 180 days will be classified as non-accrual for financial statement reporting purposes.

Advisory Board

It is recommended that the Provincial Treasurer consider the advantages of establishing an advisory board for Alberta Treasury Branches.

Given the competitive nature of the banking industry, an advisory board comprising individuals with relevant banking or business

experience could be useful to Alberta Treasury Branches. In common with boards used by other financial institutions, it could assist management by providing new perspectives on operational policies and plans. It could also advise and assist with issues that should be brought to the attention of the Provincial Treasurer. Any additional costs incurred by having the board should be more than offset through identification of new business opportunities and strategies.

I understand that Alberta Treasury Branches has retained legal counsel to advise on the advantages and legal implications of appointing an advisory board.

Profitability measurement systems

It is recommended that Alberta Treasury Branches improve its profitability measurement systems by allocating all non-interest expenses and fee income to products.

Alberta Treasury Branches' management information systems do not measure the full cost and related revenue of providing various services.

Like most financial institutions, Alberta Treasury Branches uses profitability measurement systems to determine whether its products are profitable. During the past several years, improvements to these systems have enabled management to allocate more accurately the interest costs of funding its products. Allocating all non-interest expenses, such as salaries (1993-94 $115 million) would be a further improvement. It is important to allocate salaries to the costs of products as some activities are much more labour intensive than others. Allocating fee income, where appropriate, to loan and deposit products would also provide more complete information on the performance of these products.

Alberta Treasury Branches agrees with this recommendation and intends to be able to allocate all non-interest expenses by the end of 1994.

Trust Funds

The Province administers forty-seven regulated funds representing public money over which the Province has no power of appropriation. They are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1994, trust funds under administration amounted to $10,666 million. Summarized information of the funds making up this amount is provided in Note 6 to the consolidated financial statements.

Other entities

Financial audits of the following were also completed:

473654 Alberta Ltd. - period ended December 31, 1993
(Reports the liquidation activities related to certain assets and liabilities assumed from NovAtel Communications Ltd.)
496072 Alberta Ltd. and NFI Finance, Inc., Combined Financial Statements - period ended December 31, 1993
(496072 Alberta Ltd. facilitates the management and orderly disposition of certain assets acquired from NovAtel Communications Ltd.)
Alberta Capital Fund - year ended March 31, 1994
Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 1994
Alberta Heritage Scholarship Fund - year ended March 31, 1994
Alberta Insurance Council - year ended March 31, 1994
Alberta Municipal Financing Corporation - year ended December 31, 1993
ARCA Investments Inc. - year ended March 31, 1994
Consolidated Cash Investment Trust Fund - year ended March 31, 1994
Credit Union Deposit Guarantee Corporation - year ended December 31, 1993
Farm Credit Stability Fund - year ended March 31, 1994
N.A. Properties (1994) Ltd. - year ended March 31, 1994
Orion Properties Ltd. - year ended December 31, 1993
S C Financial Ltd. - year ended December 31, 1993
Small Business Term Assistance Fund - year ended March 31, 1994
The Alberta General Insurance Company - year ended December 31, 1993
The Alberta Government Telephones Commission - year ended December 31, 1993
Treasury Revolving Fund - year ended March 31, 1994

Pension related:

Pension Plan Administration Fund - year ended March 31, 1994
Pension Fund - period ended September 30, 1993
For the period ended December 31, 1993:
Local Authorities Pension Plan
Management Employees Pension Plan
Public Service Management (Closed Membership) Pension Plan
Public Service Pension Plan
Special Forces Pension Plan
Universities Academic Pension Plan

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Therefore, their audited financial statements are not published in the Public Accounts of the Province.

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1993-94 fiscal year:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1993-94 fiscal year, the Auditor General acted as auditor of the following organizations:

Alberta Children's Hospital Research Centre
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Financial statements

Annual financial audits of the following for the year ended June 30, 1994, were in progress at the date of this report:

Grande Prairie Regional College Foundation, and
Olds College Foundation

Reporting Process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, recommendations considered important enough to be reported to ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

The Provincial Treasurer on behalf of the government has prepared a report, dated March 1, 1994, addressed to the Standing Committee on Public Accounts which contains responses to the numbered recommendations in the 1992-93 annual report.

Reservations In Audit Reports On Financial Statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. This report shows that five such reservations were issued:

Four reservations of opinion were because the financial statements of:

- Alberta Cancer Foundation,
- Alberta Resources Railway Corporation,
- Children's Health Foundation of Northern Alberta, and
- University Hospitals Foundation

include revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

One reservation of opinion was because, as discussed more fully on page 34, the financial statements of the Alberta Agricultural Development Corporation are not prepared in accordance with generally accepted accounting principles.

In all other cases, I was able to report without a reservation of opinion.

Report Under Section 18 Of The Auditor General Act

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements, and a statement as to whether they are on a basis consistent with that of the preceding fiscal year. Also, I am to provide my reasons for any reservation of opinion, and any other comments related to my audit of the financial statements.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1994, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statement of assets, liabilities and net debt of the Province of Alberta as at March 31, 1994 and the consolidated statements of revenue and expenditure, changes in net debt and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 1994 and the results of its operations, the changes in its net debt and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements. As required by the Auditor General Act, I report that, in my opinion, the disclosed basis of accounting has been applied, after giving retroactive effect to the change in accounting policy without restatement as explained in Note 2(a) to the consolidated financial statements, on a basis consistent with that of the preceding year."

The Auditor's Report was dated June 15, 1994.

Public Accounts

Audit

The Public Accounts of the Province are published in four volumes:

Volume 1 - Consolidated financial statements of the Province of Alberta

Volume 2 - Financial statements of the General Revenue Fund, revolving funds and regulated funds

Volume 3 - Financial statements of Provincial agencies, commercial enterprises and Crown-controlled corporations

Volume 4 - Financial statements of universities, public colleges, technical institutes and Provincially owned hospitals

All of the information in the Public Accounts is covered by Auditor's Reports except for sections 2 and 5 of Volume 2 as follows:

> Section 2 of Volume 2 contains details of General Revenue Fund expenditure and revenue for each department. I have not expressed an audit opinion on this information. The information is extracted from the General Revenue Fund's financial records

which were audited for the purpose of expressing an opinion on the General Revenue Fund financial statements. The audit opinion on the General Revenue Fund financial statements explains that the work done was sufficient to obtain reasonable assurance whether the financial statements as a whole were free of material misstatement. The work was not intended to obtain assurance as to whether the information contained in individual departmental statements in section 2 of Volume 2 was free of material misstatement.

Section 5 of Volume 2 contains supplementary information required by legislation or by direction of the Provincial Treasurer. I have expressed an audit opinion on the Salary and Benefits Disclosure information and on the financial statements of seven pension plans included in this section. I have not expressed an audit opinion on the remainder of the section but I have determined that the information is consistent with the audited information in the Public Accounts. I have not performed work to provide assurance as to the accuracy or completeness of the detail provided.

Consolidated financial statements

The 1993-94 consolidated financial statements report on the Province's financial condition and results of operations. Volume 1 of the Public Accounts also includes "An Overview" prepared by the Provincial Treasurer.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities whose financial statements are published in Volumes 2 and 3 of the Public Accounts, including for example, the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include the Provincially owned universities, public colleges, technical institutes, hospitals and their related entities.

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. The Auditor General is the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1993-94 consolidated financial statements is reproduced on page 138 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 reports

The report you are reading is my section 19 report for 1993-94. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1993-94 fiscal year, the Auditor General received one request to perform a special duty under section 17.

On January 7, 1994, pursuant to section 17(2) of the Auditor General Act, the President of the Executive Council requested the Auditor General to report on the financial results of Gainers Inc. and its effect on the consolidated financial position of the Province. The Auditor General reported to the President of the Executive Council and also made his Statement of Loss to the Province from its Involvement with Gainers Inc. public on March 23, 1994.

Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency which, in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 137 of this report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,

- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and

- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1993-94 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1993-94 have been reported to management.

Standing Committee on Legislative Offices

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on June 1, 1994, the day the Assembly last adjourned were:

Mr. R. Hierath, MLA	Chairman
Mr. H. Sohal, MLA	Deputy Chairman
Mr. R. Brassard, MLA	
Mr. F. Bruseker, MLA	
Mr. G. Dickson, MLA	
Mr. V. Doerksen, MLA	
Mr. G. Friedel, MLA	
Mrs. Y. Fritz, MLA	
Mr. D. Massey, MLA	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Dr. N.E. Wagner — Chairman of the Audit Committee
Chairman of the Board
Alberta Natural Gas Company Ltd.
Calgary

Mr. J. Halpin, CA
Partner
Halpin, Anderson, Mayer, Chartered Accountants
Calgary

Mr. B.E. McCook, CA
Senior Vice-President
Nelson Lumber Company Ltd.
Lloydminster

Ms. J. Rennie, CA
Director,
Nova Corporation of Alberta, and Edmonton Power
Edmonton

Mr. F.R.N. Snell, CA
Partner
Ernst & Young, Chartered Accountants
Calgary

Mr. R.B. Young
Vice-President and Director
Melcor Developments Ltd.
Edmonton

The Hon. J.F. Dinning
Provincial Treasurer of Alberta

Mission

The following statement continues to guide the work of the Audit Office:

> **The mission of the Office of the Auditor General of Alberta is to add credibility to the government's financial reporting and to improve the financial administration of the Province.**

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the views of management.

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Improving financial administration

The Audit Office wants to help the Legislative Assembly, the government and its managers focus on the issues critical to sound financial administration. The Audit Office, therefore, undertakes in-depth examinations of a selection of management control and information systems each year. The recommendations that arise are designed to promote economy and efficiency, and improve reporting so that decision makers are provided with reliable and relevant information.

Time is needed for organizations to define their outputs, to decide how to cost them, and to build the systems needed to generate the necessary information. Our priority is to produce recommendations

that encourage the development of management systems that deal adequately with budgeting, managing, and reporting outputs. At the same time, we will encourage the development of systems which can economically measure the effect of outputs on outcomes.

The change brought about by the successful implementation of our recommendations improves the financial administration of the Province.

Accounting Principles And Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Board of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. In the main, the exceptions to generally accepted accounting principles relate to the method of accounting for capital assets.

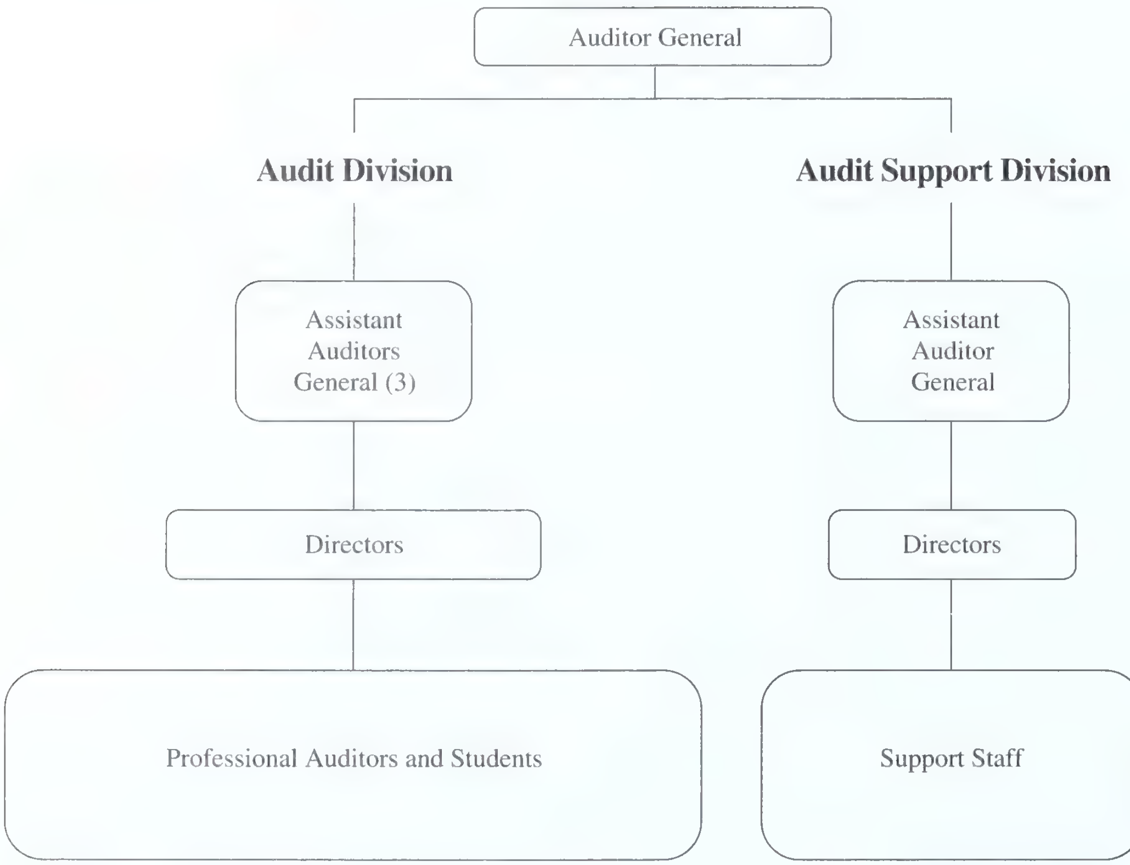
The General Revenue Fund and consolidated financial statements of the Province of Alberta are not prepared in accordance with generally accepted accounting principles. The basis of accounting is explained in a note to the financial statements.

Auditing standards

The work of the Audit Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Board.

Organization Of The Audit Office

The organization of the Audit Office is as follows:



The Management Committee The Audit Office is administered by the Management Committee whose members are:

Mr. A.J.K. Wingate, CA	Acting Auditor General
Mr. J.H. Hug, CA	Assistant Auditor General
Mr. M.G. Morgan, CA	Assistant Auditor General
Mr. D.J. Neufeld, CA	Assistant Auditor General
Mr. N. Shandro, CA	Assistant Auditor General

The Audit Division

The Audit Division is jointly administered by three Assistant Auditors General.

Each Assistant Auditor General has a team of Directors and Professional Auditors who are responsible for a portfolio of audits. The work is done with the assistance of Student Auditors who are pursuing professional accounting designations.

The Audit Support Division

The Audit Support Division is administered by an Assistant Auditor General.

The Audit Support Division provides a variety of administrative and audit-related services to the Audit Division. These include coordination of human resource management and professional development, accounting and administration, professional practices, legal advice, computer operations and system development, security, and coordination of the preparation of the Auditor General's annual reports.

Agents

The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Audit Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1994, were as follows:

Arthur Andersen & Co.
Bevan, Halbert, Ginet, Ens and Gerrard
Coopers & Lybrand
Dawson Berezan & Partners
Deloitte & Touche
Doane Raymond
Ernst & Young
Hudson & Company
Johnston Morrison Hunter & Co.
Ladell Perry
Matthew Craig Davies Collins
Mills Unrau Gerlock
Peat Marwick Thorne
Price Waterhouse
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office financial statement

The financial statement of the Office of the Auditor General is audited by Kingston Ross Pasnak, Chartered Accountants. The financial statement is included in section 5 of Volume 2 of the Public Accounts of the Province.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) repealed 1993 c19 s17;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman,

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer and,

(iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s 49;1993 c19 s17

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act,* added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

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